

# CURRENT HISTORY

A Journal of Contemporary World Affairs



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"North America must soon decide whether 'deepening' or 'widening' is its preferred course. Widening is much easier, but in the end deepening will yield the more durable set of benefits... The United States and its partners [must] think about the reforms necessary to create the most internally efficient regional economy in the global system, and then decide on the steps to get there."

## Building a North American Community

BY CHARLES F. DORAN

A century ago, the great colonial historian Francis Parkman observed that the 1763 Peace of Paris, by fragmenting North America, ushered in "a new chapter in the annals of the world." By tying together the parts severed by that treaty, the North American Free Trade Agreement (NAFTA) ushers in a different kind of North America for the twenty-first century, under the stamp of "regionalism."

Yet for most North Americans regionalism is neither dream nor reality: it is merely something that is happening. Composed principally of three countries—the United States, Canada, and Mexico—North America is one of several "world regions." Like the European Union and the Association of South East Asian Nations (ASEAN), NAFTA springs from the geographic proximity of the member states, a natural outgrowth of trade and commercial efficiencies.

While formal international design has given North America an economic thrust, the underlying conditions for regionalism in each case are independent of conscious arrangement. In order of ambitiousness and degree of integration, the European Union, a "common market," ranks first. NAFTA, a "free trade area" without a common external tariff or pretenses of political unification, ranks second. ASEAN, a mere agreement among rapidly growing polities to consult and to coordinate, is a distant third in terms of cohesiveness. Amid the differences in goals of these three types of regionalism lie some of the most paradoxical challenges facing the North American idea.

Since neither the Mexican, Canadian, nor United States governments want political union, that is not a spur to greater integration. North Americans want harmony but are skeptical about building the institutions to further that goal. They also want maximum efficiency from NAFTA, but without giving up any sovereignty. Mexico complains about loss of autonomy for the state-owned oil industry. Canada worries about the vitality of its "cultural industries." The United States deplores sovereignty loss in questions about the application of United States trade law within NAFTA, over which Canada and Mexico have some power. Yet somehow all three governments have been able to push forward with a comprehensive free trade agreement over the heads of reluctant and even hostile electorates. That the citizens of all three countries found the idea of freer trade suspect suggests that there is indeed some good in the initiative.

### REGIONAL REASONING

But why should North America move forward with plans for closer and more extensive interdependence?

First, a North American delineation makes sense because problems are increasingly "regionalized." For example, an estimated 42 percent of total illegal immigration into the United States is associated with Mexico and Canada. Mexico is first by a large margin in both immigrants who enter the United States illegally and illegal immigrants who first enter as "visitors," but Canada ranks fifth and seventh respectively. The "pass-through" of illegal immigrants from third countries further magnifies the importance of Mexico and Canada. Moreover, for both countries the problem of "illegals" from the United States is probably greater

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than what the two must contend with from most other countries.

Environmental and energy problems are also predominantly regional. Acid rain from the United States hurts communities in Canada and Mexico, while increasingly the acid rain produced by its northern and its southern neighbors falls on the United States. Toxic waste treatment and dumping are often regional problems first and foremost. After the 1973 oil price revolution, Washington discovered in all its energy negotiations that it could not bargain with either Canada or Mexico in isolation; a deal with one always impinged on attempted deals with the other.

Problems with crime, drugs, and health are often associated with United States borders to the south and to the north because that is where the largest number of people flow through on a daily basis. It is less and less possible to think of a "United States solution" in any of these matters without taking into account the impact of, and consequences for, Canada and Mexico.

Second, opportunities in trade and commerce presently look inviting from the regional perspective, despite the recent devaluation of the peso. For United States-based firms, for example, the largest part of their total foreign investment is in these two countries. Canada is the most important destination for goods made in the USA. Mexico is perhaps the most rapidly growing major foreign market for the United States. Conversely, more than three-fourths of Canada's exports, including the greatest proportion of its manufactured goods, go to the United States, while a similarly large proportion of Mexico's exports end up there. Although the global market is important to all three countries, economic opportunity seems to express itself most strongly through regional channels.

Third, the changing world balance of power has made North American regionalism a necessity. In his 1992 *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, economist Lester Thurow predicts that in the twenty-first century Europe, not the United States, will determine the rules of the international trading regime, and that these will lean toward Europe's predilection: managed trade. The international political landscape would be affected accordingly. Europe will obtain this influence for a simple reason: it will constitute the world's largest market, and that market traditionally carries disproportionate weight in determining the norms of trade and commerce. This of course assumes a high degree of coordination within Europe. North America, by pooling its resources, will at the very least provide a compelling counterweight to the European juggernaut.

Finally, in a subtle but embracing manner, cultural change reinforces the North American idea. This does not mean that any of the continent's three countries will disappear—or in the case of Canada, even disintegrate. But North America is becoming more inter-

twined culturally, and the crossborder contact penetrates much more deeply, and reciprocally, than is often recognized.

Canada is known for its (somewhat justifiable) anxiety about American rock stations blaring music across the border, American magazines dominating news coverage, and American-owned television stations that broadcast in the country failing to provide enough "Canadian content." Less emphasized is the cultural dependence of northern New England on Quebec; of Montana and North Dakota on Calgary, Regina, and Winnipeg; and of Washington state and Alaska on British Columbia. Similarly, while everyone seems to realize that Hispanics will shortly become the largest minority group in the United States, with Mexicans the largest component, especially in Texas, New Mexico, Arizona, and California, few recognize that northern Mexico is becoming a magnet for American values. The emergence of the conservative National Action Party in the states of northern Mexico—which may represent the country's best hope for a truly competitive party system—is not coincidental.

This interpenetration of cultural attitudes will eventually result in a more regional way of thinking about problems, opportunities, and the place of North America in world affairs. The identity of people in Quebec, Chiapas, or Oklahoma still lies mainly in the local area, or with the respective federal government. No one as yet identifies himself or herself as a North American. Still, the cultural amalgamation of North America is advancing.

## TALKING TO EACH OTHER

The countries of North America have three options for dealing with each other. They can rely on the old bilateral techniques of negotiation. They can practice multilateralism through the global international system. Or, as seems feasible, they can institute regional arrangements that permit three-way, direct discussion.

From the perspective of Canada and Mexico, the bilateral approach is unsatisfactory since it creates a hub-and-spokes relationship that leaves the two isolated and dependent on the American hub. And the United States has often found bilateralism a time-consuming and effort-duplicating means of achieving ends.

Multilateralism in theory has a lot to offer. It is after all the ethos on which the United States built the world trade order after World War II. But global centers are often distant, geographically and philosophically, from regional concerns. No one knows better the nature of problems in North America than someone in the affected region.

This logic underlies the decision of the three governments to test regional trade dispute resolution through NAFTA. Binational panels, pioneered in the 1988 Canada–United States Free Trade Agreement (FTA), permit

nationals of the other country to review whether the challenged government's trade law has been properly applied. This bold approach to the settlement of trade disputes uses the region as a crucible for perfecting tactics and procedure. Perhaps no better example of the regional approach to diplomacy exists.

## NAFTA'S BENEFITS

Discussion of using NAFTA to settle trade disputes highlights the larger question of what the member nations received from the regional trade initiative. Each country shared gains in common with the others and also benefited uniquely. In general, the United States obtained an implicit long-term commitment from Mexico to opt for free trade and increasing democratization. The United States also gained trade and investment concessions. Mexico received improved access to the United States market and the prospect of increased flows of United States capital. Canada obtained greater assurances of market access and a sense of solidarity with a third country able to balance United States market dominance.

But perhaps the greatest irony about the NAFTA negotiations was that those countries assuming the largest relative costs of adjustment also were the countries that received the most long-term relative economic benefits. There is some justice in a well-run international system! Mexico made the greatest adjustments, and took the greatest risks, but it also stood to enjoy the largest relative economic benefits in terms of economic growth, jobs, and per capita income. Canada risked the least with respect to the NAFTA negotiations. That is why, for Canada, in comparison to the FTA negotiations, NAFTA was a political shoo-in. Canada faced the fewest adjustments in terms of job shifts and transfers of income because of NAFTA, but Canada also probably gained the least in terms of additional wealth and economic growth.

The United States fell somewhere in the middle, largely because of the trade effects of its central geographic location. In contrast to independent 1992 presidential candidate Ross Perot's prediction that Americans would soon hear a "giant sucking sound" caused by firms moving south of the border, the United States did very well in the year after the signing of NAFTA with respect to net new domestic investment that stayed home and net new foreign investment from abroad. This alone made the agreement attractive from the United States perspective.

Despite the protectionist tone of the domestic content rules associated with the automobile and spare parts industry, the agreement led to a general reduction of tariffs and nontariff barriers. Trade creation will probably exceed the propensity for trade diversion, the mark of a successful regional trade agreement.

In agriculture, for example, the elimination of tariffs among the three countries will allow comparative

advantage to flourish. Canada and the United States will benefit from corn, soybean, and wheat exports to Mexico; Mexico will concentrate on producing crops such as vegetables and fruits, which are often labor intensive. All these tariff modifications will be phased in over a period of 10 or more years.

While the agricultural provisions are bold by world standards, they may be socially disruptive. The unrest in Mexico's Chiapas state is linked to pressure on its poor and inefficient maize economy. Apart from the plight of the indigenous peasants in Chiapas, which must be addressed by Mexico City directly, the larger question of the release of labor from rural areas of Mexico (areas unable to compete with imports from the United States and Canada) raises serious questions about where these rural workers will go—whether to Mexico City and other urban areas in Mexico where there are few jobs, or to the United States in a new surge of illegal immigration.

Now would be a good time to reassess the social implications of the agricultural provisions to determine whether peasants in Mexico need more time than originally envisioned to adjust to the grind of foreign competition. Moreover, NAFTA may also accelerate industrialization in Mexico, which in itself hastens rural-urban migration and thereby also speeds the flow of displaced Mexican workers to the United States. Thus agricultural reform will benefit from freer trade, but the social consequences of freer trade for immigration policy have not been fully taken into account, especially if the rate of growth of the Mexican economy is subpar, thus offering fewer domestic jobs for displaced peasants.

Perhaps no area of the industrial world's economy is more protected than the textile trade, especially the apparel side. Such protection, of course, is unhelpful to developing economies. For example, the world Textile Agreement has made men's wool suits in the United States twice as expensive as they are in Hong Kong, not only because the garment worker has been protected, but also because the sheep farmer has enjoyed the charity of large trade barriers. Mexico, through NAFTA, provides some downward price pressure, especially at the low-cost end of garment production. Meanwhile, intra-North American quota reductions are encouraging workers and manufacturers in Canada and the United States to move toward the high-end of garment production, using computer-assisted techniques and high-fashion design. NAFTA, however, has not eliminated tariff and other restrictions on clothing imports from outside North America.

The three NAFTA countries take a more progressive stance toward foreign investment. Although the United States still excludes some foreign investment in defense industries and television stations, Canada limits such investment in communications and media firms, and Mexico bars it in upstream oil production, NAFTA has

made large strides toward "national treatment" of foreign investors. National treatment ensures that foreign investors will receive the same market access as domestic investors. This does not mean that all investment restrictions disappear; it merely ensures equal treatment for the foreign investor. For a developing country like Mexico to accept the principle of national treatment shows courage. This decision alone could help set a new standard of openness in the world economy favoring large-scale capital mobility.

There has been nascent progress in services and government procurement. NAFTA allows "business visitors" to apply for "temporary entry," thus easing the movement of skilled manpower. Engineers and professional workers can now pass back and forth across borders with a minimum of restriction. Cargo travels overland more freely with domestic deregulation in each of the countries and NAFTA understandings. Telecommunications tariffs are being phased out in Mexico; that large market is now open to the huge telecommunications firms of North America. Both Canada and the United States have continued to whittle away at barriers to the extension of foreign bank ownership and operation, and Mexico is opening its banking services market in a timely fashion. While thresholds to a share of the government procurement market in each country were eased by NAFTA, some restrictions, such as "Buy American" and "Small Business Set-Asides" in the United States, continue to exist in all three countries. Yet the momentum toward greater openness in government procurement has been established by the trade agreement.

Standards, long an arbitrary and artificial barrier to the movement of goods and services, are facing effective reform under NAFTA. The objective is to make standards "compatible" to facilitate crossborder trade. Guidelines have been established for the exchange of data, test results, and accreditation.

Finally, a provision with great long-term importance for United States firms concerns intellectual property rights. NAFTA begins the process of enabling the producer of literary productions and software to obtain the same rights of ownership accorded to those who produce manufactured goods. For example, computer programs will be given the same protection as literary works, and sound recordings will receive the equivalent of copyright protection. Pirating will be declared illegal. Of course, provisions are one thing, enforcement another. But NAFTA does codify the principle of intellectual property rights and extends it to an important developing country—Mexico—making this perhaps the bellwether for change in these matters worldwide.

In sum, NAFTA confers many explicit and immediate economic benefits to each of its members. The issue is not so much who has benefited most; it is, instead that each has benefited substantially. Yet only the histori-

cally sensitive may perceive one of the broadest and most timely contributions of NAFTA to United States interests. The United States, like the other great trading states, could not abide a stagnant world trading system that had forgotten how to reform itself and was sinking in the direction of neomercantilism. Future historians will realize that NAFTA had two important effects on global trade liberalization: many of the provisions regarding intellectual property rights and multilateral trade dispute resolution that were agreed on during the Uruguay Round of world trade talks would not have been feasible without the looming presence of NAFTA, and passage itself of the Uruguay Round was made possible because North American regionalism encouraged Europe and Japan to take global trade reform more seriously. Thus, the most compelling logic of NAFTA was in some ways strategic.

### AFTER THE DEVALUATION, A WARNING

Mexico's December 1994 devaluation of the peso will not wipe out the benefits of NAFTA. However, the devaluation was probably hastened by the flood of imports into Mexico that came on the heels of NAFTA. The need to control Mexican spending and inflation also becomes clear. In the aftermath of the devaluation, Mexico will import less and export more, thus temporarily changing the dynamics of North American trade. A cheaper peso will also encourage some firms to move their operations to Mexico. But they would be wise to do so on the basis of a long-term plan that takes into consideration all aspects of the investment climate in Mexico, including the problems of infrastructure, training costs and turnover, and lower productivity.

Similarly, the peso devaluation brings to North America a message about how far and how fast market integration can proceed. Loose ideas about monetary union or closer monetary coordination confront the reality that a developing economy has constraints that limit what it can achieve in the short-term. The size of the emergency fund, and the volatility of the peso—mainly driven by short-term private capital flows—should warn the architects of economic integration regarding the authentic overall cost of generating a trade area.

### AND REGIONALISM'S FUTURE?

Will regionalism in North America flourish and expand, or will it reach a certain stage and then stagnate and shrivel, yielding perhaps to some other economic or political impulse because of internal social factors, cultural preferences, or urges from without to transcend regionalism? If by "regional community" we mean merely a proximity that confers the benefits of a reduction of internal tariffs and the elimination of trade impediments approximately on par with what is happening globally, then the end of North American regionalism is already near. After 10



years of NAFTA-induced tariff reduction, another round of global trade liberalization under the General Agreement on Tariffs and Trade could spell the end of all trade areas other than advanced common markets such as the European Union.

However, a world system of increasingly delineated regional groupings could mean the end of the global trading system as we know it; such a "regionalized" world system could create large centers of managed trade where bargains are arrived at through lowest-common-denominator decision making in loosely coordinated bureaucracies operating above the old nation-state. Such a trading system is likely to be no more liberal—and quite possibly less so—than the present world system in essentials. Loose regionalized bureaucracies will not necessarily force hard decisions about further liberalization on their constituent states.

But there is no reason this fate must befall the global trading system of the twenty-first century. Instead, I envision a system that is the product of two distinct yet interrelated trends. I foresee the continued expansion of regional community in several places within the global system, including North America. In each, one or two countries serve as the engine for the growth for the entire region without usurping a disproportionate share of the economic benefits. I also anticipate continued movement in the main toward more liberal policies, mixed with some managed trade in the older manufactures and even in services such as banking and insurance. The simultaneous regional community building and global trade liberalization will reinforce each other, and stimulate competition for leadership as well. Like beads on an ascending string, the regional groupings add value and purpose to the chain of upward progress.

As this new system develops, North America will become increasingly interdependent and aware of itself as a region, evolving into a continent composed of cultural strands that cross borders but do not erase them. Quebec will, without leaving Canada in a formal constitutional sense, become more politically independent while becoming more and more absorbed by North America. North America will remain flexible,

pragmatic, and multilayered. As it grows in economic size and wealth, it should also become more productive. But it will not generate a set of supranational political institutions that imitate those of Europe. North America will evolve ad hoc, focused mechanisms that deal with specific problems across national lines. These will act as international hinges on the doors that open on specific environmental, energy-related, trade, commercial, or immigration problems. National government will remain, however, at the core of North American decision making.

While these are the long-term trends, in the near term the United States should consider the following priorities.

Mexico cannot withstand more immediate economic liberalization, and Canada is preoccupied with its federal-provincial problems (not to mention economic concerns). These governments need breathing room. Perhaps the United States could creatively use this time to establish internal reforms unique to its own society and needs. Let NAFTA proceed by small steps for a while, and in a few years another coordinated plunge in the direction of greater regional integration will become feasible.

Without altering the basic rules, Chile's application to join NAFTA should be approved. Other countries can join at separate speeds and levels of liberalization as long as the new members devise and observe a firm schedule of reform to meet the NAFTA standard.

North America must soon decide whether "deepening" or "widening" is its preferred course. Widening is much easier, but in the end deepening will yield the more durable set of benefits. North American governments may find themselves caught between the attractions of NAFTA and the Asian Pacific Economic Cooperation (APEC) forum. How this joint membership would work itself out, if each organization is to have its impact, is not entirely clear. It is now time, however, for the United States and its partners to think about the reforms necessary to create the most internally efficient regional economy in the global system, and then decide on the steps to get there. ■

"With the devaluation of the peso in December, the structures of rationalism were fractured and the conflict over who the Mexicans are and what type of nationhood best suits their unique amalgam has resurfaced. . . For the reformist option to survive, not to mention flourish, Mexicans must once again believe in the future."

## Mexico: The Failed Fiesta

BY LUCY CONGER

In the early evening of election night, August 21, 1994, a small group of reporters crossed the windy, empty esplanade encircling the two office buildings that are headquarters to the world's oldest state party, the Institutional Revolutionary Party (PRI). Only a few party hacks loitered about the stairwells and narrow corridors; the usual gaggles of congenial Mexican politicians whispering excitedly or slapping each other on the back were nowhere to be seen.

Inside the Hall of Presidents, the secluded meeting room where the PRI national executive committee makes its decisions, a number of young men wearing suits—the foreign-trained economists and political scientists who designed the election campaign of Ernesto Zedillo—chatted amiably and masked their excitement at being on the winning team.

At 7:25 P.M., only minutes after the polls had closed in western Baja California state, Zedillo stepped up to the microphones and declared victory. "We have a quick count and it makes us very satisfied about the results," the bespectacled bureaucrat remarked. "This election says Mexico believes in democracy, a united country, loves social peace, and is a very solid country."

Ernesto Zedillo had just won the presidency in the most openly contested race in modern Mexican history, running against two strong challengers and fighting uphill against a stagnating economy. By all accounts this election night marked a resounding triumph for Zedillo and the divided PRI. The government could boast the cleanest elections ever held. Mexicans, who at the beginning of the year had expressed greater anger with the government than at any other time in recent memory, turned out in record numbers (an astonishing 80 percent) to give the PRI and Zedillo a solid mandate.

But, in this land of fiestas, there was no fiesta. Inside PRI headquarters the mood was flat. Outside the voters

who had swept Zedillo to victory never took to the streets to celebrate their candidate's triumph. "The election was won in sadness, in melancholy but not in resignation," says Roger Bartra, a social critic and author. The mood that night reflected a broad and deep sadness that permeated Mexican society throughout the year. Zedillo, after all, was an accidental candidate, the man who became the PRI's presidential nominee only because of the tragic assassination of President Carlos Salinas's first choice, Luis Donaldo Colosio. In death Colosio had become the great reformer who would have led Mexico to democracy, the charismatic politician who was now the favorite candidate of the man and woman on the street. And even before Colosio's murder, from New Year's Day when the Zapatista National Liberation Army burst onto the scene in January, the nasty specter of political violence and civil war cast a long shadow over the land.

On that August night there was no joy at the PRI, no electric aura around Zedillo. It was not clear what this means, but the fact that the mood at PRI headquarters was indecipherable is important. The strange air surrounding Zedillo's victory signaled Mexico's entrance into a new realm of unclarity, a time of indefiniteness. Some observers described this new uncertainty in strictly political terms. "The country is divided between a system—which has guaranteed stability but today has fewer resources for sustaining it—and a part of the society and politics that seeks to make changes although it has not yet managed to convince the rest of society that those changes will lead to a new stability," wrote Manuel Camacho Solís, former Chiapas peace commissioner and former Mexico City mayor, in his pointedly titled manifesto, *Change without Rupture*. But the indistinct reality that enshrouds Mexican life today appears to be part of a broader cultural malaise. "There are ideological commotions, political problems, disturbances to the mind. Also, there is a sickness of the heart which is sunken in darkness as we [Mexicans] are moving from one cultural era to another," said Roger Bartra in an interview.

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## OF PHANTOMS AND PROVIDENTIAL MEN

Why Zedillo and the PRI won the election with a resounding mandate of 51 percent of the vote remains a subject of wonderment and debate in Mexico. A lackluster candidate and unexciting campaigner, Zedillo's victory was nonetheless unquestionable. In a count not seriously distorted by fraud, he received 24 percent more of the vote than National Action Party candidate Diego Fernández de Cevallos, the closest challenger. But why this paradox of a glittering victory for a lackluster candidate? Some say voters stayed with the ruling party out of loyalty, robotism, or fear of change. Independent civic leaders charged that the overwhelming pro-PRI bias of television coverage poisoned the election and tilted opinion toward the PRI. And, as social commentator Carlos Monsiváis rightly quipped, people who had ranted and raged against Zedillo five minutes before still stepped up to the ballot box and cast a vote for him.

Despite stagnation in the economy, opinion polls showed that people did not think conditions had deteriorated under President Carlos Salinas de Gortari. "Strangely enough, there was not a perception that the economic situation was adverse because inflation was low and there was the sense that a process was going on that would allow you to get on board," Adolfo Aguilar Zinser, a congressman, said in an interview. Although Zedillo embodied continuity in the strict economic reforms of the past decade and signified an extension of the PRI regime into its seventh decade, exit polls showed that 65 percent of those who voted for Zedillo favored a change in social and economic policy.

The most compelling explanation for the PRI-Zedillo victory is fear. In 1994 phantoms hovered over Mexico. Political turbulence shattered Mexicans' most fondly held illusions and stirred up their deepest fears. The Zapatista National Liberation Army guerrilla uprising in January had reawakened long-standing dread of violence and a civil war fueled by an endless stream of recruits drawn from the millions of impoverished peasants. The photographs of army troop movements and the five Zapatistas with their hands tied behind their backs who had been executed by soldiers evoked the horror of the 1968 Tlatelolco massacre, when the army mowed down student protesters in Mexico City. The killing of Colosio, less than one year after the machine-gun slaying of Cardinal Juan Jesús Posadas Ocampo during a shootout between two drug gangs at Guadalajara's airport, unleashed the specter of drug wars driving politics. A popular, persistent rumor about Colosio's unexplained assassination blamed the crime on druglords enraged over their failure to cut a deal with the heir apparent. The horrifying instant in which part of Colosio's head was blown sideways was replayed on television hundreds of times, drilling terror into the consciousness of even the dullest viewer. The widespread belief that opposing factions in the PRI

engineered Colosio's assassination touched people's deepest fear: that a bitter, internecine struggle would tear the political fabric to shreds, ending the vaunted 65 years of social peace that was the PRI's strongest claim to legitimacy.

Throughout the year, frequent reports of sightings of other guerrilla groups scattered around the country constantly churned anxieties about violence. Alleged national security reports leaked to the press painted grim scenarios of postelection strife in strategic states ringing Mexico City and dotted across the country from the Texas border down to the Pacific and Gulf coasts.

Other phantoms lurked in the dark corners of the Mexican mind in 1994. The highly publicized kidnappings of Alfredo Harp Helú and Angel Lozada, top executives of the Banamex bank and Gigante supermarket chain, were bitter reminders of mounting problems with crime and a lack of security. The threat of economic disorder often reared its head as the guerrilla war and the Colosio assassination triggered sharp stock market drops, and NAFTA-induced investment stayed away from a Mexico that was now home to a guerrilla threat. "Only the PRI guarantees economic stability and certainty," said Mexican Bankers' Association president Roberto Hernández at the height of the Zedillo campaign; he evoked businesspeople's worst fears of a populist-inspired spending spree, loss of confidence, and devaluation should left-wing candidate Cúauhtémoc Cárdenas become president.

Against this backdrop Zedillo won power, but the economist and former central banker failed to arouse hopes or inspire confidence. He would not make Mexicans tremble, as have his predecessors in the all-powerful presidency. "The election resolved the problem of Zedillo but not the problem of governability of the country," said Luis Hernández, adviser to the national coordinator of Coffee Producer Organizations and an independent social activist.

The election left a desolate landscape in which no other leader was standing on the political horizon. Colosio's rival within the PRI, Manuel Camacho, was squeezed out of politics because his role as Chiapas peace commissioner had eclipsed the PRI's presidential campaign. Cárdenas, the caudillo who nearly won the presidency in 1988 running against Carlos Salinas and demonstrated, for the first time ever, that the PRI was not invincible, was sidelined by the meager 16 percent of the vote he received. The blustery conservative National Action Party candidate, Diego Fernández de Cevallos, who led his party to its best-ever vote, simply abandoned the political arena, reigniting rumors that he was ill or had cut a deal with the PRI. Finally, the election shattered the myth of the "*hombre providencial*," the strong man who gives direction and leadership to a country in crisis. "The Mexican political class has no providential figures," said social critic Bartra.

## DECONSTRUCTING CHIAPAS

The Chiapas conflict irrevocably changed political life in Mexico by creating a permanent threat of war. That threat, along with the steady stream of poetic texts from the Zapatista leader, SubComandante Marcos, kept the issues of poverty, democratization, and indigenous autonomy on the national agenda and added pressure for clean elections. Why the world's newest guerrilla force should explicitly back the demands of civil society for political reform and social justice remains a mystery, as does the identity of its charismatic masked leader. Remarkably, the government's unilateral cease-fire and peace talks with the Zapatistas achieved a truce that has held for more than a year. Given Mexicans' deep concerns about violence, the Zapatista army "awakens a force that is not bellicose but rather is pacifist," says Carlos Monsiváis, referring to the powerful antiwar civic mobilizations stirred by the Chiapas conflict that succeeded in bringing about the cease-fire.

But new rumblings in December, when the Zapatistas broke out of the military encirclement that had apparently confined them to the Las Margaritas area of the Lacandon jungle, shook Mexicans' confidence. Small bands of young guerrillas erected roadblocks and occupied the plazas of 38 towns in northern Chiapas, thrusting the conflict back onto the national stage and creating new tensions in the state. The army bolstered defenses in the region and intensified surveillance, but ultimately both the army and the Zapatistas made strategic retreats. Zapatista operations were initially blamed for the devaluation debacle that shattered confidence in the 19-day-old Zedillo administration and cost Finance Minister Jaime Serra his job.

The troubles in Chiapas precipitated a deep reconsideration of the political and social order, as activists and intellectuals groped to explain the causes of the conflict and envision solutions. In the past year, the way the uprising is viewed has become more complex. It "never was a conflict between two armies, it is a civil conflict between landholders and peasant peons," said Luis Hernández. And the age-old dispute over land is now complicated by a political dispute initiated by the leftist Democratic Revolution Party (PRD), which demands the PRI state governor be deposed because of alleged election fraud. Six people were killed in a shootout between PRD protesters and local police in the Chiapas town of Chicomuselo on January 10, adding political violence to the ongoing social violence of land evictions and the threat of war. Chiapas remains a cauldron of conflict, an impoverished and polarized state in which Indians are pitted against Ladinos; ranchers against peasants; and Protestants against Catholics.

But even when the Zapatistas remained on alert, a number of influential intellectuals seemed to have assimilated the guerrillas as a civil force, a call to social

sensitivity, a democratic imperative, and a new cultural phenomenon. According to this interpretation, the Chiapas conflict had been contained. "The psychological impact [of Chiapas] is that it brings back the indigenous problem, the problems of poverty and inequality, problems which Mexico has always faced and always refused to deal with," opposition intellectual Jorge Castañeda said in an interview. The Zapatistas and SubComandante Marcos "removed the persuasiveness of the neoliberal dream [and showed that] history that is not for justice is nothing," says Monsiváis. Ultimately the explanation for these sanguine assessments may lie in the curious nature of the Zapatista guerrillas; they are "armed reformers," in the words of political writer Joel Ortega.

Former Chiapas Peace Commissioner Manuel Camacho sees the conflict as a call to nationwide reform. "The reestablishment of the political unity of the country will demand a peace accord in Chiapas and a commitment to combat violence on the part of all political forces and social organizations of the country. A profound political change would ease negotiations and reinforce the peace process in Chiapas," he has written. Although during the peace talks Camacho avowed that the problem could be resolved mainly inside the borders of the impoverished state, he now takes a larger view. "If it [the conflict] is part of a broader program for political reforms, then there is space for finishing the negotiations. But if it's just seen in terms of Chiapas, then there's no more hope for a peaceful agreement," Camacho told me in November.

In mid-January, the threat of guerrilla war suddenly evaporated as the Zapatistas declared a cease-fire for an "indefinite time" after an extraordinary meeting with Zedillo's interior minister, Esteban Moctezuma, and troop withdrawals from two towns.

## BACK TO THE THIRD WORLD

In 20 quick days in December, the great myth of Carlos Salinas's presidency collapsed. The illusion that Mexico's entry into the North American Free Trade Agreement would bring Mexico into the promised land of the first world vanished. In two days in December, the government lost \$11 billion in a vain attempt to sustain that illusion by preserving a strong, stable currency. On January 4, when Zedillo announced the government's emergency economic program, he boldly smashed the Salinas myth and proclaimed the harsh new reality of Mexico: "The development of Mexico demands that we recognize, with full realism, that we are not a rich country, but a nation of grave needs and lacks." His stark language represented a breakthrough in Mexico's traditionally convoluted political rhetoric; and called a halt to the Salinas administration's rosy portrayal of Mexico's fragile economy.

The economic ruin spread by the devaluation signaled the end of another Salinas myth, that of the

infallible technocrat. The irony that some of the world's best-trained and most highly praised economists could lead the country to the brink of economic disaster was not lost on Mexicans, even as they licked their wounds. The public repeatedly asked how the Harvard and Yale doctorates in the cabinet could have overlooked the gaping trade deficit that, in the last four years of the Salinas administration, averaged almost \$255 million annually. As popular discontent with the economic emergency spread, opposition politicians and businesspeople alike attacked the former Salinas administration for the huge deficit that had caused the devaluation. The PRD filed a brief with the attorney general's office demanding that Salinas, former Finance Minister Pedro Aspe, central bank chief Miguel Mancera, and Zedillo's first finance minister, Jaime Serra, stand trial for conspiring to conceal the truth about the nation's financial situation. "We want those who plunder the people to be judged by history, but also by the people, and to be sanctioned by law," said PRD congressional leader Jesús Ortega. The scramble to lay blame for the economic crisis marked the culmination of the devastation left by the turmoil of 1994; it trained Mexicans' discontent on the all-powerful presidency, the arrogance and unaccountability of technocrats, and the new fragility of Mexican institutions.

## FROM TRANSPARENCY TO OPACITY

Under the Salinas administration, official rhetoric touted "transparency" as a catchword to signal the modernization process that opened the economy to imports and foreign investment, and to suggest a new, straightforward style of doing business. "Transparency" was first used to refer to new foreign investment rules, and was bandied about by Trade Minister Jaime Serra to appeal to investors' universal demand for clear rules of the game. When the Salinas privatization drive got under way, "transparency" became the buzzword to portray the bidding process as clean and forthright. The transparency propaganda was supposed to convince vital foreign investment that Mexico was a safe haven for foreign capital, and it had the desired effect. But, clearly, the numbing repetition of the term was meant to rub off on the administration at large, creating an image of a crystalline business environment in a country known for corruption, backroom deals, intrigue, and betrayal.

The last year of the Salinas administration clouded the image of transparency. The assassinations, fraud, kidnappings, narco-Catholic confabs, and economic debacles of 1994 would even boggle the mind of a Mexican. Nationally publicized high crimes, seared into the national consciousness, showed the pervasiveness and power of dark forces in Mexican public life: the assassinations of Luis Donaldo Colosio and PRI secretary general José Francisco Ruiz Massieu; a \$700-million bank loan scam engineered by Carlos Cabal

Peniche, the suddenly wealthy businessman-banker whose empire allegedly flourished thanks to high-level contacts in government; revelations that Papal Nuncio Gerónimo Prigione had twice received in his offices two of Mexico's most wanted drug traffickers, Benjamín Arellano Félix and his brother Javier, who have been linked to Cardinal Posadas's murder; and the 106-day-long kidnapping of Banamex executive Alfredo Harp Helú, which ended when his family paid the kidnappers a record \$30 million. None of these crimes have been solved. Until the government prosecutes the crimes, business continues as usual in Mexico—where disclosure remains a dream and impunity prevails.

The Colosio investigation is the prime example of opacity in the era of "transparency." The first special prosecutor, Miguel Montes, abandoned his theory that the crime was a conspiracy that involved several members of the Colosio security team and adopted a lone-assassin theory that was instantly debunked in Congress and by the public. Salinas was forced to name a new prosecutor, Olga Islas, who did not generate any new findings. Mario Aburto, the man who fired the pistol into Colosio's head, is behind bars, but a mastermind has not been named or prosecuted, and doubts remain about a second gunman and the motives for the murder, which are widely believed to be political.

The investigation into the Ruiz Massieu murder nearly caused a state crisis just days before Zedillo was to take power. Deputy Attorney General and Special Prosecutor Mario Ruiz Massieu, the victim's brother, charged that Salinas lacked the political will to pursue the inquest, accused the two top leaders of the PRI of blocking the investigation, and resigned from it. "The demons are loose, and they have won," the aggrieved Ruiz Massieu said, apparently referring to the ascendancy of the PRI old guard over the reformist faction led by his slain brother. Before his resignation, Ruiz Massieu managed to put 14 suspects behind bars, but the PRI congressman accused of being the mastermind, Deputy Manuel Muñoz Rocha, remains on the lam.

Reports about the Cabal Peniche scandal point to Cabal's close links with senior PRI political figures, including a former cabinet official and three state governors. Cabal has published advertisements in national newspapers pledging to continue to run Banco Unión Cremi, but his whereabouts are unknown. Suspicions about the Salinas-era privatizations intensified in 1994, especially after *Forbes* magazine released its list of billionaires, including 24 Mexicans, in July. According to the magazine, 23 of the super rich became billionaires during Salinas's term, and many of their fortunes ballooned after they bought state enterprises. As questions swirled around these sudden, fabulous fortunes, a hypersensitive government issued



a 600-page white paper on the privatization process in an effort to prove its "transparency."

In the last year of Salinas's term, persistent rumors linked politicians to drug trafficking and drug money to the privatizations. The political assassinations and the killing of Tijuana police chief José Federico Benítez López were blamed on a power struggle between druglords and authorities in popular versions of the crimes; these will continue to shape opinion until the authorities release satisfactory findings.

## MAGIC AND MYSTERY

While the magic and joy of Mexico may seem to have taken leave, the country has not lost its capacity to surprise. Mexico remains a mystery to political and economic observers alike. Before the vote, distinguished historians and political analysts on the left and the right proclaimed the 1994 election the "end of the regime," the deathknell of the PRI's hegemony. Yet Zedillo and the PRI emerged with an uncontested victory and a strong popular mandate. Some of the finest minds in Mexico City and Wall Street, who predicted economic growth of 3.5 to 4 percent for 1994 and continuing improved growth thereafter, were baffled by the December devaluation.

Reflecting on the significance of Mexico's annus horribilis became a vocation for citizens and spawned a cottage industry in publishing. As tensions increased in Chiapas and Mexicans were jolted by the devaluation and financial crisis, making sense of the jumbled events of the year became a matter of urgency. During one of our periodic rumination sessions in January, a friend said to me brightly, "I can sum it all up in three words: Back to normality." The democratic reform is unrealized, the value of the peso has returned to its proper level, wealthy industrialists retain tax benefits and trade protectionism while the national debt is passed on to the poor, impunity reigns, nobody trusts the government, and the mafias of oligarchs, politicians, and drug traffickers are in control as always in Mexico and throughout Latin America, he said.

If there is an upside to the traumas and torments Mexico weathered last year, it is that the national agenda is now clear and a wide range of structures and organizations are in place that could nurture and lead a transition to democracy. In recent years, opposition parties and social groups alike have demanded reforms that would separate the PRI from government and government financing; limit presidential powers; provide greater independence for the legislative and judicial branches; end corruption; allow free and fair elections; break up the private television monopoly; and create rules of open competition in banking.

President Zedillo endorsed many of these reforms and surprised most observers with his unexpected political adroitness in mid-January when he brought the three leading opposition parties together with the

PRI to sign a pact to forge sweeping political reforms to achieve a peaceful transition to democracy. The administration capitalized on the economic crisis to bring the country back from the brink of ungovernability and build bridges with even the PRD which had been relentlessly persecuted under Salinas.

The pact reflects the new political reality of Mexico in which the PRI can no longer govern without allies from across the political spectrum. The long-awaited political reform is a trade-off aimed at quelling political protest and maintaining consensus around the emergency economic program.

The situation has evolved since 1988, when change and reform were seen to be the function of a single man—Cuauhtémoc Cárdenas—who was vested with the mission of democratizing Mexico. Though wracked by bitter divisions, the PRD today is a party, not just a caudillo. Moreover, the diverse watchdog organizations of civil society have channeled discontent and galvanized demonstrations against violence and war.

Ultimately, for the democratization reforms to succeed, Zedillo and the PRI must reach beyond political parties to draw in peasant and urban popular groups, human rights, and other special interest groups as well as individual thinkers and activities. Proposals abound for establishing the new social, political, and economic order that could offer the promise of democracy, peace, plurality, and growth to Mexico in the twenty-first century. As political writer Joel Ortega points out, "a reformist option" is coming into view, most notably through the recent writings of PRIista Manuel Camacho, centrist novelist Carlos Fuentes, and opposition intellectual Jorge Castañeda. In his pointedly titled *Change without Rupture*, Camacho calls for formation of a "democratic center" made up of civic organizations, institutions, and individuals from across the political spectrum; this center would bring about a phased-in transition to democracy that would end the PRI's political hegemony. Fuentes rails against the false and dysfunctional compartmentalization of Mexico's modern state. In his reflection on 1994, *Nuevo Tiempo Mexicano*, Fuentes sounds a compelling call for "inclusive modernization"—a process of political modernization to complete the country's economic modernization and recapture the noble attempt of the 1910 social revolution "to recognize the cultural totality of Mexico." Castañeda's *Sopresas te da la Vida* calls for building a broad current of opinion, "situated between the PRD and the PRI" to advance democratic reform.

The impulse for a new synthesis is not idle. The PRI successfully ruled Mexico for decades as a *sui generis* alliance that incorporated most of society's disparate elements and channeled contradictory tensions within Mexico. Culturally and historically, Mexicans feel more comfortable with a consensus-building inclusionary dynamic, rather than the adversarial politics of other latitudes.

Analysts and scholars have long noted the tension between rationality and magic in Mexico. When Mexicans wax sentimental about their country—as they often do—a favored way of summing up their feelings is to talk of “Mexico mágico.” Nobody who knows Mexico would deny that magical people and events tend to appear here just when needed. Little more than a year ago, who would have imagined a witty masked poet leading an indigenous guerrilla force that would remind a rapidly yuppifying Mexico of its Indian origins and neglected peasant masses—and willingly negotiate with the government just six weeks after launching attacks on the army? “The genius of Mexicans consists of preserving the values of progress without giving up affirmation of the right to mystery, the right to amazement and endless self-discovery,” writes Carlos Fuentes, obviously warming to his subject.

During the past decade of intense reforms, Mexico’s economic and political metamorphosis was grounded in pragmatism and rationalism, as the foreign-trained

technocrats shifted into overdrive to apply conventional modern economic theory to Mexico. With the devaluation of the peso in December, the structures of rationalism were fractured and the conflict over who the Mexicans are and what type of nationhood best suits their unique amalgam has resurfaced. The financial crisis even pulled the rug out from under the businesspeople and bankers, the privileged few who had clearly benefited from the economic reform. The devaluation spread discontent into every corner of society, crushed confidence, and demolished faith in the country’s institutions. “With each passing day, one believes less in the possibility that there can be a change,” remarked artist Gabriela Ortiz Monasterio. For the reformist option to survive, not to mention flourish, Mexicans must once again believe in the future. In the meantime, they are placing their trust in powerful, ethereal forces that have long graced and shaped their history. “Magic is the source of my stability regarding my country,” said Rogelio Fuentes, an industrial designer. ■

The December devaluation of the peso shook many people's perception of Mexico as a developing economy well on the path to the "first world." The reaction in general to the devaluation "has not been a stellar performance: not by the Mexicans; not by the United States government. . .; not, at least at the outset, by media analysts; and not by all the other presumed experts who so poorly understood the underlying situation in Mexico. But it is now time to look ahead."

## The Mexican Economy: Life after Devaluation

BY SIDNEY WEINTRAUB

**O**n December 20, 1994, Mexico devalued the peso. The intention was to lower the floor of the band in which the peso traded, from the 3.46 to the dollar that had prevailed the day before to 4 to the dollar, a depreciation in dollar terms of about 13.5 percent (from a peso worth 29 cents to one worth 25 cents). As it turned out, the peso plunged much more than that.<sup>1</sup>

The Mexican authorities clearly miscalculated. They thought intervention in the market could hold the desired new floor, just as intervention in the past had kept the peso within its old band. But intervention did not work this time, and it became clear that if it continued, Mexico would lose the remainder of its foreign exchange reserves (\$6 billion at that point) in a matter of days—including the \$6.7 billion credit line the United States and Canada promised after ratification of the North American Free Trade Agreement (NAFTA); however, these were not drawn down. The United States could have intervened itself by buying pesos, but did not—at least not then.

Thus there was no real choice other than to let the peso float. Those betting against the peso, concluding that the currency would continue to lose value at least for a time, thought they had a sure thing.

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<sup>1</sup>The goal of the Mexican authorities is for the peso to settle at 4.5 to the dollar, which would be a devaluation of 25 percent.

The devaluation and the way it was handled must change all analysis of the Mexican economy's immediate future. Confidence in the management of the economy has been eroded, not necessarily forever, but for now. All previous projections—of GDP growth, inflation, interest rates, the balance of payments—need to be recalculated. The economy has not been destroyed—this is not 1982, when the debt crisis ushered in four years of depression—but it certainly is not healthy.

### FAULTLINES OF A MAJOR QUAKE

Why did sophisticated Mexican policymakers do what they did? A bit of recent history first. When Mexico began its stabilization program in 1987, it initially allowed the peso to depreciate sharply, clearly undervaluing the currency. This cushion was then used as the basis for holding the nominal value of the peso, with only small daily devaluations. The accumulation of these daily changes did not fully compensate for the difference in inflation between Mexico and the United States, which meant that the peso's real value gradually increased. The currency valuation policy was part of the government's anti-inflation program, in combination with a number of other measures affecting the budget, monetary policy, prices, and wages. These "pacts" or *pactos*, as they were called, became annual events, and they succeeded in their main goal of reducing inflation. The last pacto before the devaluation was announced in September, after Ernesto Zedillo's election as president in August but before his inauguration December 1—but more on this later.

It is difficult to measure the under- or overvaluation of a currency. The standard method is by determining purchasing power parity, under which prices of tradable goods and services in one country (Mexico) are compared with those in another (the United States in this case) to estimate the exchange rate at which the same basket of goods can be purchased in the two



countries. This method indicated overvaluation of the peso by about 20 percent when the devaluation occurred, but it does not yield a precise measurement.

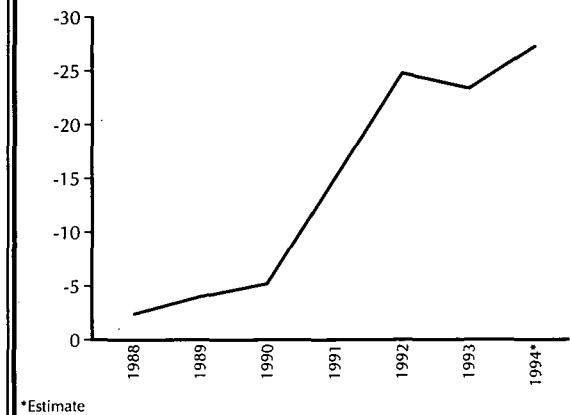
The thinking of those who made exchange rate policy before the December devaluation was that as long as Mexican exports increased, which they were doing, and foreign reserves increased, which they did for several years, there was no reason to devalue the peso. The argument—hope may be a better word—was that gains in productivity would compensate for the currency overvaluation and partially correct the rising trade deficit. And there were productivity gains. This position carried the day until December 20.

The Achilles' heel of this policy was the deficit in the current account of the balance of payments (essentially the balance on trade in goods and services). This deficit kept growing, except for a brief period during 1992–1993. But capital to finance it flowed into Mexico, and those in favor of continuing the policy held that there is nothing wrong with a developing country using foreign savings for its development purposes. Foreign savings are particularly important in Mexico, where the savings rate—about 17 percent of GDP—is too low to sustain the investment necessary for high growth. Mexico's current account deficit was nearly \$30 billion in 1994, about 8 percent of GDP. (By comparison, the current account deficit in the United States is less than 2 percent of GDP.) The problem was not that Mexican exports of goods and services were not growing; they were, but by less than imports.

The mounting current account deficit left Mexico highly vulnerable to shocks that could lead to interruption of the inflows of capital essential to finance the large deficit. And shocks there were. The country experienced a series of upheavals during 1994—the rebellion in Chiapas state on the first day of the year; the assassinations of Luis Donaldo Colosio, the Institu-

### MEXICO: CURRENT ACCOUNT DEFICIT

(In billions of dollars)



tional Revolutionary Party (PRI) presidential candidate, and of José Francisco Ruiz Massieu, the number two officer in the PRI's hierarchy; and a series of kidnappings for ransom, some quite spectacular. Each shock led to a tremor on the Mexican bolsa, or stock exchange, as portfolio investors wavered; each also led to some weakening of the peso, moving the currency toward the top, or weak end, of the preset band. There was partial recovery after each shock, but the outside world sensed the instability.

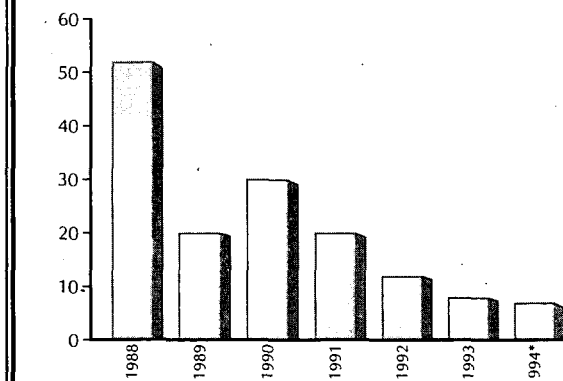
As a consequence, Mexico lost foreign reserves during 1994, after earlier assertions that they were increasing despite the overvalued peso. Reserves fell from about \$24 billion at the start of the year to about \$17 billion before December's events.

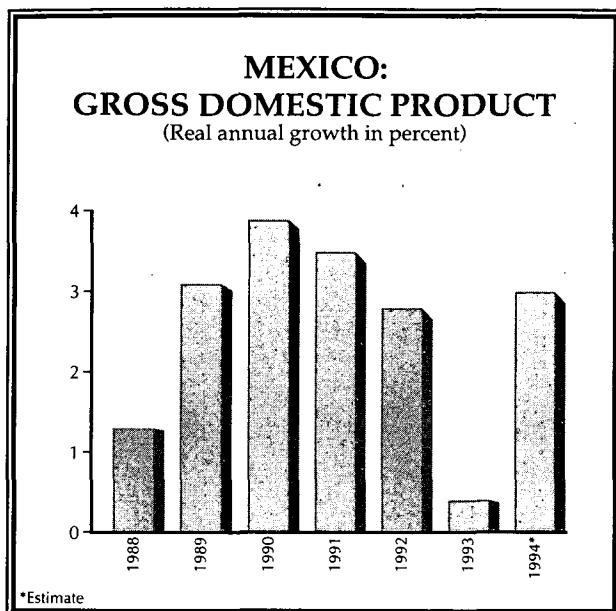
There were also external shocks, as the United States Federal Reserve Board repeatedly raised domestic interest rates. This meant that Mexico also had to raise its interest rates to make the country attractive to foreign portfolio investors. The higher interest hindered direct investment within Mexico and made it difficult to stimulate economic growth. Overall GDP growth during the six-year administration of President Carlos Salinas de Gortari, while positive, was hardly dramatic.

This was the situation when the most recent pacto was announced after Zedillo's election. This pacto continued the policy of the previous *sexenio*, or presidential term, despite the changed circumstances. There was debate at the time, both in the administration and among economists inside and outside Mexico, that the moment should have been seized for as orderly a devaluation as possible, with all the necessary ancillary measures implemented at the same time as the devaluation. This would also have spared Zedillo from having to take unpalatable action once in office. However, the key authors of the existing policy—Treasury Secretary Pedro Aspe and central bank head Miguel Mancera,

### MEXICO: CONSUMER PRICES

(Percent change, December–December)





with the support of President Salinas—carried the day. In effect, they gambled there would be no further shocks that would turn the exchange market topsy-turvy. They were wrong, and Mexico is paying the price.

It is not easy at this stage to piece together all the elements that triggered the December 20 devaluation. The government first blamed the Zapatista rebels who were reported to have temporarily occupied various towns in Chiapas in December. Apparently there were huge withdrawals of dollars in the days preceding the devaluation, signaling a crisis.

At any rate, the immediate reaction of foreign capital markets to the devaluation is now known. The peso's decline clearly overshot what objective analysis would conclude to be its true value. But then, exchange rate movements concern confidence and not just objective conditions. There were cries of outrage from many investment advisers, especially in the United States, who said they had been deceived about Mexico's exchange rate policy. But they should have known that the peso at 3.46 was on shaky ground; all other close observers knew this. They bet their clients' money on the word of Mexican policymakers, and their clients are paying the price.

The biggest problem, however, was Mexico's inability to roll over short-term debt instruments even at exceedingly high interest rates, which created a major liquidity crisis. It was this problem that eventually led to substantial United States support of Mexico.

Recriminations are flying in Mexico: Salinas should have acted; the original devaluation should have been larger; the devaluation could have been handled better. All these points may be valid, but it is the future that must be faced.

## THE GOOD, THE BAD, AND THE UNCERTAIN

Those who called for some adjustment of the peso before the last pacto made the following arguments:

- If money markets and investors saw the peso as overvalued—which they did—they would either hold back some new investment or withdraw foreign exchange already invested. This fear obviously became reality in December.
- Even if capital continued flowing into the stock and bond markets, investors would require an interest rate premium to compensate for the exchange risk. If the peso were valued more realistically, it would be possible at some point to lower the high Mexican interest rates.
- Lower interest rates could stimulate the Mexican economy, whose performance in terms of growth of GDP had been lackluster. Higher overall growth was deemed essential for carrying out Zedillo's ambitious social program and augmenting increases in the number of jobs.
- Devaluation of the peso was the only practical way to deal with the burgeoning current account deficit, since it would stimulate exports and dampen imports of goods and services. (In theory, the current account deficit could have been reduced by engineering a drastic slowdown of economic growth, but this was hardly desirable. Mexico could have imposed import restrictions, but this would have been condemned now that Mexico is a member of NAFTA.)

Proponents of devaluation recognized that there was a downside to what they were recommending. A devaluation would stimulate inflationary pressures, and lowering inflation was the key goal of the pactos. Lowered inflation was a costly, hard-won achievement. But those supporting an orderly devaluation thought the rise in inflation could be contained to a modest one-time increase of a few percentage points, which could be corrected in the following year or two. The trade-off envisioned was a little more temporary inflation for a lot more sustained GDP growth. A devaluation would make the servicing of Mexico's foreign debt more costly in peso terms, but the debt was felt to be much more manageable than in 1982.

As it turned out, the devaluation has led to more chaos than order in the Mexican economy, at least in the short term. Not only has the peso sunk lower than the desired level, but devaluation has dealt the stock and bond markets a sharp blow, raised the already high interest rates by significant amounts, complicated the

refinancing of government debt, and put great strain on wages and prices.

Labor suffered much in terms of buying power during the 1982–1986 economic adjustment, which was required to service Mexico's external debt and to reduce the country's reliance on oil exports. And while real wages have since increased, they have not fully regained their pre-1982 level. It is possible the new pacto, which calls for a sharp decline in real wages, will provoke a final break between rank-and-file labor and the governing PRI; relations had started to fray in the 1988 elections, when most workers deserted their union leaders and Carlos Salinas for opposition leader Cuauhtémoc Cárdenas. But if wages increase to fully offset the real effect of the devaluation, nothing will have been achieved other than to raise all prices. Holding the line on wages is the crucial issue—hardly a popular position for a new president under siege. Equally important is holding the line on prices charged for goods and services, especially nontradables not directly affected by the peso increase in import prices.

Perhaps the major short-term casualty of the devaluation has been both domestic and foreign confidence in Mexico's management of the economy. A remarkable degree of harmony had been built up between Mexico's former finance minister, Pedro Aspe, and the foreign financial community. Similarly, central bank head Mancera was seen as a bulwark against devaluation and the leader in the relentless fight to wring inflation out of the Mexican economy. This confidence may have led experienced money managers astray. They avoided the signs that Mexico was losing control over the value of the peso and continued to pour capital into the country.

Confidence in the financial management of Mexico resonated. Foreign direct investment 1993 reached about \$5 billion, and was running ahead of this during the first half of 1994. Mexico under the Salinas administration's economic policy became the premier destination for foreign direct investment in Latin America. It was also the favored destination for portfolio investment in the region: in 1993 \$28 billion flowed in. The growth in foreign direct investment was linked as well to the conclusion of NAFTA, and United States acceptance of the agreement was based on confidence in Mexican economic policy.

It is an overstatement to assert that this confidence is shattered for good—that investors will now shun Mexico forever. They may for a time, especially the portfolio investors, though there may be some bargains when it is judged that the bottom of the market has been reached. Direct investors may pause until the

economic situation becomes clearer, but few of those already in the country are likely to pull up stakes and leave. In fact, it is now cheaper in dollar terms to invest in Mexico than it was before; and wages may also remain lower in dollar-equivalent terms. One recalls that the big boom in investment in *maquiladora*—the factories in Mexico where American-made components are assembled for reexport to the United States—came during the 1980s, after the devaluation of 1982.

Jaime Serra Puche's resignation as finance secretary was accepted a week after the devaluation. The scapegoat for the debacle had to be replaced with someone known to have the respect of the financial community, both foreign and domestic; Guillermo Ortiz, the deputy secretary of finance under Salinas, was hastily shifted from his post of secretary of communications and transport to replace Serra Puche.

There are thus at least two sides—one good, one bad, along with much uncertainty—to the effects of a devaluation like the one in Mexico. We are now witnessing the immediate fallout of a badly planned and ineptly handled devaluation. The Mexican authorities have looked amateurish. In due course, however, the panic will dissipate, and the medium and long term will look different—and almost certainly better in the wake of President Zedillo's emergency program, which calls for holding down wage and price increases and reducing public sector expenditures.

On the critical issue of investor confidence, the short-term assessment will give way to a new evaluation that will depend on the success of the emergency policies. It is simply not true that confidence, once lost, is never recovered. The pessimistic view taken of Mexico in the immediate aftermath of the 1982 debt crisis had largely given way to overconfidence by the early 1990s. During the second half of last year volatile capital had become nervous about Mexico, but it turned near-hysterical when the government acted to deal with this edginess. But if, say, six months from now, the Mexican scene looks reasonably stable, and there is some assurance the peso has settled down, a revised view will take hold.

Interest rates in Mexico have risen. But they were high even before the devaluation because of nervousness over the stability of the peso. The medium-term effect of devaluation can be a reduction in interest rates if the peso is seen to be stable.

In the short term, the merchandise trade account will probably worsen because of the higher cost of imports and inertia in the level of exports, but if Mexican wage and price increases can be limited, the trade account should improve.<sup>2</sup> The service account will experience divergent effects: tourism to Mexico should increase but interest payments on debt also will increase.

Perhaps above all, Mexico's economic growth prospects were dubious even before the devaluation be-

<sup>2</sup>Economists refer to a J-curve following a currency devaluation, in which the situation gets worse for a period before it improves. The time needed for this turnaround in Mexico is uncertain, but should not exceed one year.



cause of uncertainty about the country's stability—its political steadiness because of events in the country during the year, and its economic solidity because of the repeated shocks to capital flows and the overvalued exchange rate. At the moment, achieving economic stability seems more elusive than ever, but if it can be restored Mexico's medium-term growth prospects will vastly improve.

### THE REACTION TO THE NORTH

A word is necessary about the reaction of the press and government in the United States. The first news reports were dominated by hand-wringing about the deteriorating situation. The opinions heard were primarily those of Wall Street firms whose clients had taken a beating; little real analysis of what had motivated the Mexican authorities was provided. It took about a week before editorials in leading newspapers such as *The New York Times*, *The Wall Street Journal*, and *The Washington Post* pointed out that the world had not ended and Mexico was still there, next door, a much stronger country economically and politically than it had been a decade ago. "The McNeil-Lehrer News Hour," 10 days after the devaluation, broadcast a long interview with Deputy Secretary of Finance Santiago Levy in which he explained the government's reasoning.

Washington was silent in the wake of the devaluation. After about a week of watching the peso decline, the United States Treasury finally spoke up, declaring that the peso had fallen too far. This was followed some days later by the announcement of an international support package of \$18 billion to stabilize the peso and meet short-term obligations (including the earlier \$6.7-billion in United States and Canadian credit lines). In mid-January, as the extent of the liquidity crisis became clear, the Clinton administration, working with Republican leaders in Congress, proposed a loan guarantee fund of as much as \$40 billion. The rationale is that the United States government guarantee will enable the Mexican government to borrow funds at a modest interest rate.

This has not been a stellar performance: not by the Mexicans; not by the United States government, which acted only belatedly in support of its NAFTA partner; not, at least at the outset, by media analysts; and not by all the other presumed experts who so poorly understood the underlying situation in Mexico. But it is now time to look ahead.

### MEXICO'S ECONOMIC FUTURE

Before December 20, it was projected that the Mexican economy would grow by about 4 percent in 1995; consumer price rises would drop from approximately 8 percent to 4 percent; and wages would increase by 4 percent. The peso would continue with

daily depreciations of .04 centavos. None of these projections now have any validity.

The direction of policy for the coming months is reasonably clear, even if many of the details are lacking. There will surely also be improvisation on many of the finer points, depending on what is working. The most important challenge for Zedillo is to restore the confidence that has been squandered. The replacement of the finance secretary was directed to this end. So is the emergency package announced by the president and the support package worked out between the international community and the Mexican authorities. The United States loan guarantee is the most important element of outside support.

The following are the broad elements of the Zedillo administration's program, plus some speculation about the details within the broad guidelines.

To reassure Mexicans and foreigners alike that the anti-inflation battle will not be jettisoned, the program-mable part of the public sector budget will be reduced by 1.3 percent of GDP. Instead of the small deficit earlier projected for 1995, Zedillo has said that the public sector budget is likely to have a modest surplus—1.5 percent of GDP. This will be accompanied by tight monetary policy, implying high interest rates over the short term. But Zedillo's projection of the budgeting situation is highly optimistic.

Privatization will be promoted in fields not tackled before to raise needed foreign exchange and assure foreign investors that the economic restructuring is continuing; this will include the national railway, ports, and telecommunications facilities. Nothing was said about power-generating capacity, or about Pemex, the state-owned oil giant, or even about privatizing the Pemex basic petrochemical facilities, which were commonly believed to be next up for privatization. These were apparently too politically sensitive. American and other foreign petroleum interests are still pushing for some form of contracts under which foreign investors bear the risk of exploration and are then permitted to share in the proceeds of successful exploitation—but it was not to be. Finance Secretary Ortiz later said that some elements would be privatized, but the technique for this is unclear.

The new wage pact calls for an increase of 7 percent in minimum wages, plus allowances for increased productivity. If inflation this year is 15 percent, this is a real "hit." If inflation is higher, as is likely, the wage limits are unlikely to stand. Business is being asked to make an "extraordinary" effort to moderate price increases.

The straw that apparently broke the camel's back and led to the December 20 action was renewed turmoil in Chiapas, and it is more necessary than ever that the president act quickly and decisively to try to end this strife. This will require political concessions

to the Zapatistas, and pledges of increased economic aid.

It is difficult to predict what the outcome of these measures might be. While inflation will surely be higher than in 1994, it can perhaps be held to no more than 25 percent. Zedillo said GDP growth will be less than half the 4 percent previously projected for 1995, and that sounds about right. The emergency measures need not continue indefinitely, but most likely will remain in place until the second half of the year.

Future exchange rate policy is especially difficult to predict. For the time being, the peso will continue to float. The international package can provide some cushion of borrowed reserves that would allow for moderate intervention in the exchange markets; in the best of worlds, these funds will not be used for that purpose. At any rate, some link, whether explicit or not, between interest rates and the exchange rate will be necessary if the killer interest rates now impeding investment in Mexico are to be lowered. This may be possible if the devaluation leads to a significant reduction of the current account deficit. But it will be a delicate operation because Mexico will need foreign capital in view of the country's low savings rate; and portfolio capital will not be forthcoming unless the return is better than in the United States.

Zedillo has promised to mount a major effort to upgrade the country's infrastructure, which is needed to make the most of the opportunities NAFTA promises. For this, Mexico will have to rely heavily on the private sector. The World Bank and the Inter-American Development Bank can assist by promising redoubled efforts to finance roads, sewage treatment plants, electricity generation, and other infrastructure projects, and to accelerate disbursements. Promises like these, however, are more valuable as a symbol of international cooperation than they are real help, because, in practice, it is difficult for multilateral development banks to speed up disbursements.

Zedillo is not off to a good start, and the future of his administration may ride on the success of the confi-

dence-rebuilding campaign. His biggest problem is widespread lack of confidence that his government is capable of handling the delicate problems it faces. Zedillo must convince the skeptics that they are wrong.

But the strengths from which Zedillo operates are also substantial. Mexico has wrung most of the inflation out of its economy. The inflation rate in 1995 will reverse the downward slide of recent years, but there is little danger of runaway price increases. The devaluation should lead to a decrease in the current account deficit, thereby reducing the economy's vulnerability to shocks.

Mexico's exports are now highly diversified, dominated by a variety of manufactured goods that are tied in to the production and marketing strategies of multinational United States firms. This affiliation will not dissipate with the devaluation; if anything, a more realistically valued peso should strengthen reliance on Mexico as a production base. The greater danger is that die-hard NAFTA opponents in the United States will argue that a decline in the United States trade surplus with Mexico is proof that the agreement is undesirable. Yet it should be clear that the important issue for the United States is not any particular balance of short-term bilateral trade, but rather the sustained health of the Mexican economy.

The United States dollar has depreciated steadily in recent years. The Canadian dollar appreciated sharply after 1989 and then depreciated just as sharply during the past year. Thus the peso is not the only currency in NAFTA whose exchange value has declined. In neither Canada nor the United States has currency depreciation proved incompatible with containing inflation. There is no reason Mexico cannot have a similar outcome, at least after the emergency measures promised by Zedillo and the support package of the United States have run their course.

The wreckage always looks worst right after a storm. Mexico should be revisited in about six months to determine how durable the damage has turned out to be. ■

"Not even the most acerbic critics of the previous regime and political system could have imagined a nightmare like the one the nation is now living. In the shadows two certainties, and no others, can be made out: the president cannot steer the country through the storm alone or with the same small and stubborn nucleus that has governed Mexico for the last 10 years; and it is no use arguing about the gravity of the situation."

## The Devaluation: A Political Reflection

BY JORGE G. CASTAÑEDA

In early January the United States finally came to the rescue of the faltering Mexican peso—and Mexico's precarious political stability. By intervening in the markets in defense of the peso, the United States Federal Reserve did what it should have done immediately after the December 19 devaluation of the Mexican currency. And, with his January 11 declaration of support, President Bill Clinton threw all his administration's strength against the speculators, thus calming the markets—at least for a few days. Better late than never, but the North American rescue plan still suffers from immense lacunae and conceptual black holes. It is time for President Ernesto Zedillo Ponce-de León's government to take the initiative to fill them.

The manner in which the United States acted during the first days of the crisis, and the complete lack of imagination south of the border in the petitions for help, were confirmed by the traditional character of the aid offered and that requested. Proceeding with new loans and financial packages was equivalent to ignoring the new opportunities brought by the North American Free Trade Agreement, despite the enormous cost Mexico paid to sign on. Instead of delivering American and other international financial support the old-fashioned way—that is, through conditional loans and more or less imposed austerity programs—it was time to shift to a new monetary relationship with the United States and Canada. The juncture was favorable for the United States (through the Federal Reserve) to attempt, from the start and with order and breadth, what had begun to be done in an improvised and gradual manner on Monday, January 9: buying the peso in the markets, in the same way it has done to sustain other currencies (it has bought the British pound, the French

franc, the yen, and the deutsche mark when pertinent, and at times the Italian lira and Canadian dollar). Sooner or later, Mexico would have to recover its currency's value and possibly pay interest, but the burden would have been lighter and the consequences minor compared to the debt Mexico will now incur.

But Mexico, as a former high-ranking United States official once commented, isn't a member of that club, and its exchange isn't reserve currency to be bought and sold on international markets. The health of the Mexican economy, however, is a national security issue for the United States and, in the end, Washington will be forced to thoroughly intervene in order to avoid the complete collapse of Mexico and its institutions. NAFTA can be considered the membership card and dues to an exclusive club—not a club of first world countries, but rather one whose members' financial stability is the virtual coresponsibility of the United States.

Needless to say, one cannot achieve a long-term pact with United States monetary authorities without a previous agreement on the details of a recovery program. And, without a doubt, sharing the responsibility of sustaining a currency is accompanied by some abdication of monetary sovereignty. The latter hasn't disappeared over the years—in Mexico or in other parts of the world. However, the panic, uncertainty, and terrible hemorrhaging of capital could have been avoided: the psychological effect of a Federal Reserve announcement that it would defend the peso at 4.5 or 5 to the dollar "like a dog" (but a gringo dog) would have compelled speculators to desist in their attacks on the Mexican currency.

### WOULD'VE, COULD'VE, DIDN'T

With time and patience, the gravity of the situation and Mexico's disposition to negotiate the Fed's aid as part of a recovery program that was not recessive but stimulated growth, along with the regulation of immigration caused by the new crisis, should have been revealed to Washington authorities. Perhaps the Clinton administration (wrapped up as it is in its own worries)

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did not initially realize that a new, post-NAFTA stage in the relationship between the United States and Mexico had begun. Thus, the crisis should have been confronted with calmness and celerity, imagination and boldness—attributes that have not been found in excess in Mexico during the seemingly interminable weeks following December 19.

Once the Federal Reserve committed to defending a fixed parity, say 4.5 to a dollar, which is what the government says it wants and believes is feasible, interest rates should have been raised to the necessary level for the announcement of a new definitive exchange rate. There would not have been an expansion of the band in which the peso's exchange rate was set; nor would there have been floating or a subsequent recovery and freely fluctuating peso. Instead, there would have been simply a new exchange rate, supported for an indefinite period by the Fed and, in the immediate period, by the high interest rates designed to anchor capital in Mexico.

This kind of agreement with the United States would have allowed for the initiation of two additional negotiations, creating better conditions for Mexico without, of course, eliminating the complexity and delicacy of the issues at stake. In the first place, the use of a monetary mechanism of this nature—similar to that between the European Union nations and financed by their virtual central bank, the German Bundesbank—mitigates the effects of an excessive inflationary differential between the two countries. The key to a successful devaluation is preventing inflation from skyrocketing since, in addition to nullifying any competitive advantages, it would rapidly bring the country to the same point from which it began. In the long run, Mexican inflation cannot be substantially higher than that in the United States. But if the new parity enjoys the support of the Federal Reserve and the markets recognize it, a higher inflationary differential is not as grave a problem.

This margin would have permitted negotiating with the United States—and not with the International Monetary Fund—an economic program of growth and recovery instead of recession for Mexico, which is what both countries desperately need. Mexico requires it because after 13 years of little or no economic expansion—in constant dollars, the per capita GDP is less today than it was in 1980—the population simply cannot bear additional austerity and unemployment. The United States also longs for it, since it cannot tolerate a new migratory wave caused by a recession in Mexico. Today's conditions are identical to those of the 1980s, which provoked the backlash of California's Proposition 187: recession and devaluation in Mexico, an overheating of the United States economy, and a boom in the demand for unskilled labor.

Obtaining the Fed's support should have been linked to the negotiation of a recovery package, but

such a package would hardly have been a selling point in the United States, especially with a Republican Congress, without an immigration component. And this, in turn, would promise serious complications for Mexico, including the decision on how much responsibility the authorities would assume in relation to those migratory flows that overtake any possible accord on seasonal or sectorial legalization. But this dilemma still exists, and will have to be confronted with or without a devaluation crisis, with or without an economic debacle. By tying in immigration negotiations, Mexico could obtain, in exchange for the extremely painful concessions that it would have to make in any case, the aid the situation demands.

## A GRANDER SOLUTION

One last comment about blame and vengeance. If, to the growth and recovery program and the accords with the United States previously mentioned, Ernesto Zedillo would add the creation of the infamous coalition government proposed since June by, among others, Carlos Fuentes, the Grupo San Angel, myself, and now opposition leader Cuauhtémoc Cárdenas, it is possible that the crisis could be resolved without resorting to more drastic measures. Among these measures, the following options stand out: allowing foreign participation in the exploration for and extraction of crude oil (this is the real threat, not the privatization of old, useless Pemex wells), or placing the blame for the debacle, both politically and through a criminal law suit, on former President Carlos Salinas de Gortari. As long as Zedillo resists acting with boldness and opportunity, the probability of finding a better alternative decreases. From here, some observations on the Salinas affair are appropriate.

It would be absurd for those of us who systematically criticized the outgoing government for its authoritarianism, its antipopular political economy, its concessionary international politics, and the environment of corruption and waste it generated, to suddenly defend the former leader. I must recognize, however, that discovering the string of somersaults, betrayals, disloyalties, and unstoppable attempts Salinas has engaged in to distance himself from the presidential term recently concluded in disgrace and shame makes my pulse tremble with my primary anti-Salinismo. During the last six years, opportunities abounded to criticize, dissent from, renounce, or combat the policies that pushed the country to the precipice. There was, of course, a cost some of us have paid; others have preferred to lay low. Few who did not belong already to the ranks of the opposition or the critics chose to take advantage of these opportunities. The rest bear the responsibility of the disaster with Salinas, and must share his fate, whatever it may be. To make firewood from fallen trees, one must have a wood-cutting license. Let each one show his.

## DECEPTION POLITICS

Although the present debacle broke out the same way debacles always do in Mexico—because of the exchange rate and national finances—both the origins of the crisis and many of its consequences are of a political nature. Politics reigned supreme in three ways during 1994, revealed by the political etiology of the catastrophe: one, by imposing a substantive veil of silence over the electoral campaign when the economic route of the country could have been discussed; two, being the real explanation as to why the devaluation was not done earlier; and three, by bringing to the government a team that resists recognizing that governing often implies making a choice.

Without a doubt, the Mexican public was as surprised as foreign investors by the magnitude and untimely character of the peso's devaluation, which exceeded 50 percent in January. This surprise is, nevertheless, partly attributable to public opinion itself and in part to the candidates who contended for the presidency during the first eight months of 1994. By focusing entirely on the electoral process, the most important national issues were not touched upon. Except for a few (justified) accusations thrown at the government by Cuauhtémoc Cárdenas, who asserted that the peso was overvalued, there was no debate among presidential aspirants on the exchange rate, commercial opening, dependence on foreign financial flows, or privatizations. The imminence, the dimensions, and the possible effects of a major devaluation were not exposed to the electorate.

This silence also impeded a full awareness of the so-called trade-offs or alternatives: devalue or persist in stagnation; devalue early or be left without reserves; devalue little and soon, or late and a lot. And so, when a measure became necessary, inevitable, and desirable, general confusion spread. A large-scale national debate on parity would not have avoided the devaluation; it may even have accelerated it. It would, however, have contained the discontent and feeling of deception prevailing in Mexico today that have produced among most Mexicans a desire to see Salinas lynched.

The principal causes of the current debacle are of a political order, beginning with one of an external nature. In the months following the difficulties and obligations assumed by Presidents Salinas and Clinton in order to obtain NAFTA's ratification in November 1993, a devaluation was simply out of the question. Devaluation would have confirmed the treaty's adversaries' worst fears and malicious insinuations: that Mexico would devalue soon after the treaty's approval, thus "stealing" North American jobs through disloyal tactics. During the entire year of the NAFTA debate in the United States, a measure that would morally weaken the probabilities of approval was also inconceivable. For these reasons, during most of 1993 and the first

months of 1994 Salinas's hands were tied: to devalue was to betray the agreements made.

The second political factor was the reconquest of the Mexican middle class by the Institutional Revolutionary Party (PRI) and the system after 1988, due in large measure to price and exchange rate stabilization. The commercial liberalization and real appreciation of the peso put millions of imported goods at the disposal of Mexican consumers. Thanks partially to this, the PRI, without resorting to an electoral fraud greater than that of 1988, recovered in 1991 and in 1994 several opposition strongholds, including the Federal District and Mexico state, totaling one-fourth of the country. To devalue would have implied the loss of these crucial segments of the electorate and would have justly generated the depression and irritability that today invade the nation. On the eve of the August 1994 presidential elections it was simply inconceivable.

The third and last political element in the explanation was the anxiety of every Mexican president not to devalue. "A president who devalues is a devalued president," President José López Portillo rightly said in 1982. As long as he could avoid it, Salinas was not going to devalue the currency: on that depended his role in history, his prospects to become head of the World Trade Organization, and the possibility of being able to walk the streets of Mexico without being insulted. Presidents Luis Echeverría and López Portillo ran out of time and money or sacrificed themselves for the good of the system; to each his just rewards. President Miguel de la Madrid devalued so many times that in the end once more didn't matter very much. Carlos Salinas was able to transfer his problem—and many more—to his successor.

But politics has left its mark in the current crisis by making way for a generational and governmental team that, until just recently, was convinced that, as development economist Albert O. Hirschmann once said, "Everything good goes together." According to them, one could grow, control inflation, and finance the current account deficit while simultaneously fighting inflation; there were no trade-offs to be made. This was confirmed by the budget sent to the legislature by President Zedillo on December 10, 10 days after taking office, and 10 days before his world collapsed. Then, economic growth of 4 percent, 4 percent inflation, and a perfectly manageable current account deficit of \$31 billion were contemplated. There was no reason to choose between desirable and attainable goals, or to prioritize some while sacrificing others. If to this one adds a perceptible inexperience and a noticeable reluctance to listen to dissenting voices, the outcome can be disastrous. It was, and continues to be, as the errors and insensibility are multiplied.

Ernesto Zedillo has had the honesty to recognize an error brought to his attention by many Mexicans and foreigners: a chronic current account deficit of 6

percent of GDP was unsustainable. But a confession does not a penitent make: one must now examine why that deficit surged and how contingent it is on the entire economic model. Also, the nexus between a closed and narrow decision-making system and erroneous decisions must be defined. Finally, one must determine whether a crisis with political origins can be solved with solely economic remedies.

All the ills of the time fell on Ernesto Zedillo: the insurrection in Chiapas; the failed and internally repudiated candidacy of his predecessor for an international post; the currency devaluation and the depletion of reserves; the galloping inflation that has been set

loose; the lack of a serious but representative opposition with whom he can negotiate; a banking crisis; and the absence of a strong, competent, and helpful government in Washington. Not even the most acerbic critics of the previous regime and political system could have imagined a nightmare like the one the nation is now living. In the shadows two certainties, and no others, can be made out: the president cannot steer the country through the storm alone or with the same small and stubborn nucleus that has governed Mexico for the last 10 years; and it is no use arguing about the gravity of the situation. The bloom is off the rose. ■



The latest general elections in Canada "demonstrated the bitterness voters felt toward the governing Conservative Party and, by extension, its handling of the nation's economic and other priorities. In so doing, the voters followed a pattern set in many other democratic industrialized nations in the 1990s by 'throwing the bums out.'" If the victorious Liberals do not deliver on their campaign promises, they may be shown the door as well.

## Canada: The Year of the Volatile Voter

BY JONATHAN LEMCO

Like the 1994 midterm elections in the United States, the 1993 Canadian federal elections may have signaled a major political realignment in Canada. The governing Conservatives suffered the largest drop in the number of elected legislators in Canada's parliamentary history. The party was virtually wiped out electorally, attracting only 16 percent of the vote and winning just two seats in the House of Commons. And the rivalry between the Liberal and Conservative Parties, which had characterized Canadian politics for much of this century, was no longer relevant, as new parties joined the political fray and attained prominence.

The election demonstrated the bitterness voters felt toward the governing Conservative party and, by extension, its handling of the nation's economic and other priorities. In so doing, the voters followed a pattern set in many other democratic industrialized nations in the 1990s by "throwing the bums out." Canadian voters are now less likely to retain allegiance to any single party and are more likely to call themselves "Independents." And those who do identify with a party are less likely to support their party's candidates than at any time in the postwar era.

### THE POLITICAL LANDSCAPE

Why this massive electoral change? At the time of the election call, Prime Minister Kim Campbell's Progressive Conservative Party held a majority of seats in Parliament. In large part, the Conservatives consisted of a coalition of Western Canadian anglophones and Québécois francophones. They tended to appeal to social conservatives in the west, and free marketeers

and advocates of privatization throughout the country. Part of the Québécois contingent was composed of "soft" nationalists who insisted that Quebec's distinctive character—and a greater measure of political autonomy for the province—could find favor in the Conservative Party.

The opposition Liberals had governed Canada for most of the twentieth century. Their leader, Jean Chrétien, had been a longtime cabinet minister in a succession of governments. Ironically, his popularity was far more substantial outside his native Quebec; Chrétien opposed an officially distinct status for Quebec and related constitutional proposals, and supported the repatriation of the 1982 Canadian constitution without Quebec's assent. The Liberal Party, however, had historically been the federal party most sensitive to the French fact in Canada, and its support had usually come from Quebec and Ontario, the two most populous and powerful provinces.

Canada's third-largest party at the time of the 1993 election was the social democratic New Democratic Party. The NDP represented the interests of organized labor in English Canada and was the strongest advocate of a strengthened welfare state. Although the NDP had never formed a majority in Parliament, it was the governing party in three provincial legislatures.

The early 1990s have seen the emergence of the Reform Party, which represented western Canadians angry at the central government's policies of official bilingualism and perceived bias toward central Canadian interests. The party leader, Preston Manning, maintained that no province, including Quebec, should be granted special status or special privileges. His party's platform struck a chord with westerners, who were tired of apparently endless constitutional negotiations and the central government's policies of official bilingualism and perceived tilt toward central Canadian interests; they preferred that the government focus on economic growth and unemployment alleviation.

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The early 1990s also witnessed the creation of the Bloc Québécois, whose mandate was to operate within the federal parliament to promote Quebec's sovereignty. The Bloc promoted itself as a Quebec-only party that would work with the provincially based Parti Québécois to achieve independence. One could argue that it is a reflection of the Canadian system's political toleration that a party committed to Canada's dismemberment could legitimately function within the political apparatus to achieve this goal.

Unlike the political system in the United States, where the two major parties are dominant at the federal, state, and local levels, parties in Canada may or may not be in power at federal and/or provincial levels of government. The NDP, for example, may be weak federally, but it can form the government in three provinces. And the Conservatives may have been the governing party in Ottawa until 1993, but at dissolution they held the premierships in only two provinces, Alberta and Manitoba. Similarly, a number of strong provincially based political parties may have little or no prominence on the federal level of government.

This party differentiation reflects the strength of the Canadian federal structure. By any objective measure, Canada and Switzerland have the two most decentralized federal structures in the world. Provincial powers over the purse, regulatory matters, and provincial interests are remarkable by any standard. Canada's sheer size and regional diversity have made this so. In fact, unlike the United States, the real check on the power of the governing party in Canada is not the official opposition at the federal level, but the provincial governments. The Canadian constitution grants the provinces power to provide far more services to their constituents than the United States constitution offers the states.<sup>1</sup>

Since Ontario and Quebec are home to two-thirds of the nation's voters, their interests usually prevail. In 1993, many western Canadians had grown discontented with Ottawa's perceived bias toward the centrally located provinces. In addition, many Quebecers felt that an apparently inefficient federal structure could not adequately protect their interests. It was in

this volatile electoral climate that the Reform Party and the Bloc Québécois found their adherents.

## ELECTIONS WITH A DIFFERENCE

The normal volatility of the Canadian electorate significantly increased in 1993 because of the uncertainty associated with the presence of five contenders for power. Three of the five—the Bloc Québécois, the New Democratic Party, and the Reform Party—were strong regionally but weak nationally. The Bloc and the Reform Party were wild cards, since neither had a track record of any consequence. Both had provocative, attention-getting leaders who appeared to personify their parties. In fact, it is hard to imagine the Bloc without Lucien Bouchard, or a Reform Party without Preston Manning; to many observers, they *were* the parties that they headed.

The impact of these new parties was felt on election night. On October 25, 1993, Canadian voters tossed out the governing Progressive Conservative Party in one of the most remarkable turnarounds in modern electoral history. As noted, the Conservatives received only 16 percent of the vote. Nationally, the Conservatives lost votes to the triumphant Liberal Party, but in Quebec the Tories were embarrassed by the victorious Bloc Québécois and in the west the Reform Party won most of the available parliamentary seats. In Ontario the Conservatives lost votes to the Reform Party and the Liberal Party. The Liberals won 177 of the 295 open seats to gain a parliamentary majority. Fifty-five percent of the seats they captured came from Ontario alone, which could lead to renewed accusations of an "Ontario bias."

Canada's first-past-the-post electoral system favors the front-runner and punishes the also-rans. In the 1993 election, the Liberals won with only 41 percent of the popular vote. The Bloc Québécois formed the official opposition with 54 seats, and 14 percent of the vote nationally, but just under 50 percent of the vote in Quebec. The Reform Party was close on the Bloc's heels with 52 seats and 19 percent of the vote nationally. The New Democratic Party attracted 7 percent of the vote and a paltry 9 seats. One independent member of parliament was also elected.

The Conservatives, who in 1984 and 1988 had triumphantly managed the collaboration between Quebec and western voters, saw this partnership devastated. With only two seats, they must now evaluate their entire *raison d'être*. With so few elected members, they have lost their official party status and their two MPs must sit as independents. Only one Conservative cabinet minister, rising star Jean Charest of Quebec, was able to hold on to his seat. More than half the Tory candidates lost their deposits because they did not attract the minimum 15 percent of the votes cast in their constituencies. At this writing the party's total debts stand at about \$8 million.

<sup>1</sup>While Canada's federal structure is decentralized, the parliamentary system is highly centralized. There is a fusion of powers between the Canadian executive and the legislature, such that Canada has what may be the strictest party discipline in the modern history of parliamentary government. Individual members are almost never allowed to oppose their party leaders. The result is that individual members of parliament exert far less authority over policymaking than their American counterparts. (Former Prime Minister Pierre Elliott Trudeau spoke of his Liberal Party backbenchers at various times as "trained seals," "trained donkeys," and "nobodies.") The weakness of MPs means that a Canadian prime minister with a majority government can pass almost all his or her party's legislation with little opposition.

Soon after the election the witchhunt began to determine who was at fault for the Conservatives' electoral disaster. The obvious candidates are former Prime Minister Brian Mulroney, who had resigned some months prior to the election; Kim Campbell, who succeeded Mulroney; the Conservative campaign machinery; and the mass media and other scapegoats. There is fault to be found among all these of course, and each will be discussed in turn. But it is important to stress again that the Canadian electorate was and is more volatile than ever in its voting preferences. In fact, over 50 percent of Canadians switched their votes from the 1988 election.

The volatility of the electorate notwithstanding, not all has changed on the Canadian political landscape. The Liberals are again in power with a majority government, as they have been for most of the twentieth century. Furthermore, the rise of the Reform Party and the Bloc Québécois follows the ascent of other historical movements expressing regional disaffection. What is different now, of course, is the sheer magnitude of the Conservative loss and the Liberal gain, and the emergence of legislators poised to act on behalf of the alienated in Quebec and the west.

The 1993 election results revealed all the frustrations felt by the Canadian voting public. The status quo was now unacceptable, although Canadians may not have agreed on what should replace it. Also, no great love was expressed for the Conservative Party's challengers. They had not convinced the electorate that they could promote economic growth and increase employment. But they did have the good fortune of not presiding over the country's economy during the crippling recession. They were seen as interesting alternatives laden with promises, and Canadians showed themselves willing to take a chance on them.

### EXPLAINING THE EARTHQUAKE

What led to the Conservative collapse in the election? Several factors suggest themselves.

#### *The Anti-Mulroney Backlash*

During Brian Mulroney's nine years as prime minister, the Canadian economy experienced periodic sharp downturns, including the 1993 recession. In addition, various constitutional agreements foundered, a widely unpopular goods and services tax (GST) was instituted, a controversial free trade agreement with the United States was negotiated and passed, and various public agencies were privatized.

Some of these measures will likely promote prosperity. But by early 1993, the general perception among many Canadians was that "lying Brian was doing it to us again." To some English Canadian nationalists, Canada was committing the cardinal sin of moving in lockstep with the United States. For others the Mulroney government was too quick to accommodate

Quebec sovereigntists and nationalists. During his tenure, a record number of Mulroney's cabinet ministers and members of his party caucus were forced to resign because of various indiscretions, and the prime minister had also been caught in several rhetorical inconsistencies. Certain elements of the mass media were especially hard on him and the personal habits of members of his family. A 1994 bestseller, *On the Take*, by journalist Stevie Cameron, outlined these problems and peccadillos in gross detail and served to remind Canadians, one year after the fact, why they had voted Mulroney's successor, Kim Campbell, out of office. (Campbell succeeded Mulroney as Conservative Party leader and prime minister in February 1993.)

One possible explanation for the Conservatives' electoral demise argues that Mulroney left too late to allow Campbell to campaign effectively or to bring about the policy changes necessary to distance herself from Mulroney. In the short time available to her, could Prime Minister Campbell have stood for meaningful policy change? Was there time to outline her strategy to overcome the nation's economic problems? Was it reasonable to expect her to be able to distance herself from Brian Mulroney's snake-oil salesman image?

One might respond by noting that Prime Minister Campbell had served in senior cabinet positions in Mulroney's government and was therefore partly responsible for that government's poor image. But there may be some truth to the argument that Mulroney left too late in the game for Campbell to put her own stamp on the party she now led. Still, one could also make the case that after nine years of Mulroney-led governments, Canadians were unwilling to elect any Conservative who succeeded Brian Mulroney. In fact, the Conservative Party had been suffering low levels of support in the polls for years.

Kim Campbell thus faced an uphill battle from the beginning, notwithstanding her intelligence, her physical attractiveness, and her candid, witty comments. Furthermore, the other four parties explicitly tried to distance themselves from Mulroney-style politics—and from each other. Liberal leader Jean Chrétien, for example, who had served in senior elected positions for 20 years, was tagged by the other parties as "Yesterday's Man," as if the only acceptable elected politicians would henceforth be new ones.

To be fair, Campbell was alert to the situation and she spoke eloquently of her interest in inclusive public policymaking. She blamed the media for failing to understand the new politics of the Conservative Party. One might note, however, that this is a familiar complaint from politicians: when their poll support is low and their motives questioned, the media is usually to blame. In the end, the anti-Mulroney sentiment was no doubt a key feature in the Conservatives' 1993 election loss.



### *The Troubled Economy*

Repeated surveys during the early 1990s revealed that the number one issue for Canadian voters was the economy. In 1984 and 1988 the Conservatives presided over a strong and vibrant economy that had propelled them to victory. By 1993 the recession was in full force.

The Conservatives had made deficit cutting and inflation fighting a priority; they achieved real success with the latter, but unemployment still hovered around 15 percent in some regions, and 11 percent nationally. Economic growth was stagnant. In the United States, the newly elected president, Bill Clinton, spoke of reinventing government, investing in training and infrastructure, and kick starting the United States economy. The Conservatives' rhetoric on similar topics was less convincing. For many Canadians, the economy was in trouble because of free trade, the goods and services tax, and Brian Mulroney. In the summer of 1992, one survey revealed that 75 percent of Canadians were dissatisfied with the government's economic performance. Inflation was virtually nonexistent and interest rates were at a decade low, but the Conservatives received little credit for these successes. Instead, the public's focus was on high deficits, high unemployment and underemployment, high taxes, and a great deal of economic uncertainty. The economy was in trouble—and Brian Mulroney's government was to blame.

### *The Conservative Campaign*

From the beginning of the campaign, the Conservatives seemed confused. Whereas the Liberals were prepared with a "red book" on issues that they could wave and quote from at every opportunity, the Conservatives seemed to have few identifiable policies. Instead, their campaign hinged on the attractiveness and novelty of their new leader. Kim Campbell was not Brian Mulroney, and party strategists seemed to hope that this would be enough reason for Canadian voters to reelect the Conservative Party.

Leadership is an important factor in party renewal, of course. But policy and party organization matter as well. Campbell was new and different and looked like a winner, but this was not enough. She was also inexperienced and frequently unable to take constructive criticism. She could be arrogant and feisty when it was not appropriate. She also led a campaign team that frequently demonstrated bad judgment.<sup>2</sup>

The starkest example of this was a Conservative campaign ad that used unflattering photographs of Liberal Leader Jean Chrétien, who had been the victim

of a childhood disease that left him with a deaf ear and a slightly contorted face. The commercials' voiceovers included the statement that "I would be embarrassed with this man as prime minister." The ad aired only briefly but the damage had been done. Campbell claimed to be mortified and asserted that she had not authorized the ad. Many Conservative supporters were alarmed. This kind of commercial was "un-Canadian," revealing the worst of American or Mulroney excesses. Chrétien for his part remarked that "God gave me this disability," and the public responded sympathetically.

Throughout the campaign, Conservative Party headquarters and the prime minister's tour seemed to be working at cross purposes. They stressed style over substance and leadership over policy. Somehow, Kim Campbell would be different, but it was never convincingly explained in what way.

By contrast, the Liberals ran a nearly flawless campaign. Chrétien adopted the image of a statesman. He did not use negative advertisements and his government experience was portrayed as an asset. The Reform Party and the Bloc Québécois also ran effective campaigns. The NDP, while strong on policy, was lackluster in style and presentation.

### *Kim Campbell's Personality Problems*

As noted, part of the explanation for the Conservative failure might have been the candidate herself. Kim Campbell had little experience as leader. Some colleagues saw her as an ineffective team player; she was quick to delegate authority to her staff, but chose not to monitor it effectively. Her manner could be alternately witty and charming, or brusque and arrogant. During a late August campaign speech, Campbell spoke of the need to hold a dialogue with the Canadian people on attacking the deficit—but not during the election campaign. The media attributed this to arrogance. Campbell later revealed that she believed an election campaign allowed too little time to make significant policy changes. But the media focused on her apparent refusal to discuss these proposals and portrayed her in the worst possible light.

### *The Media's Role*

The Canadian mass media have long been accused of devoting too much attention to party leaders and not enough to their policies. Journalists respond that the public is most interested in their leaders, and so they are only responding to their constituency. Furthermore, the Canadian political system gives party leaders control of the reins of power. At no time was all this more evident than during the televised leadership debates, which were structured as contests between five individual contenders.

When the party leaders made mistakes—and Kim Campbell made several—they were magnified by the media coverage. This may have contributed to voter

<sup>2</sup>For a day-by-day account of the campaign's blunders, see the insider account by David McLaughlin, *Poisoned Chalice: The Last Campaign of the Progressive Conservative Party?* (Toronto: Dundurn Press, 1994).

volatility. And if the media focus was to be on mistakes, then the Conservatives would look bad and the Liberals would look good. Alan Frizzell and his colleagues analyzed the coverage of seven major newspapers around the country and noted that Campbell received more coverage than her opponents, but only 4.9 percent of the Campbell stories were "favorable, while 43.8 percent were unfavorable." By contrast, Chrétien received more favorable and less unfavorable coverage than Campbell.<sup>3</sup>

## THE FUTURE OF THE CANADIAN PARTY SYSTEM

The Liberals are once again the governing party, with overwhelming parliamentary support in Ontario and Atlantic Canada and modest levels of support elsewhere in the country. They are committed to reducing the deficit, privatizing public agencies, and increasing employment. They support Canada's membership in the North American Free Trade Agreement, the World Trade Organization, and the United Nations. International peacekeeping is their only military priority, and national bilingualism remains party policy. The Liberals pay lip service to constitutional change, but it remains to be seen how serious they are about this. They present a strong antisovereignty, pro-federalist stance.

The Liberals have enjoyed the longest political honeymoon of any federal government this century. This is due, in part, to the fact that they have not had to make any hard and unpopular decisions yet. Liberals have also benefited from the memory of the hated Mulroney Conservatives that remains fresh in the public mind. However, in the long run, Liberal fortunes will fluctuate with the state of the economy and the relative strength or weakness of the sovereigntist movement in Quebec.

The Bloc Québécois ran a well-managed campaign in 1993 and captured 54 of 75 Quebec seats, the only province in which the party ran. To the Bloc's surprise, members find themselves Canada's official opposition. This is a major responsibility, since it requires the Bloc to challenge the government on issues that may not always affect Quebec's interests. Their first year has been a mixed success in this regard, although Lucien Bouchard has performed brilliantly at times. However, the Bloc's victory in Quebec might not signal majority support for sovereignty. According to 1993 and 1994 polls, most Bloc supporters want the party to concentrate on job creation, while only a minority chose independence as the main focus.

The sovereigntist Parti Québécois has now formed a government in Quebec. The Bloc is working with PQ to

win a referendum on sovereignty this year. Should the referendum pass (and at present the outcome is uncertain), then the Bloc has promised to resign from Parliament, which could throw the House of Commons into disarray for a time. Alternatively, it could signal the ascension of the Reform Party to official opposition status.

The Reform Party may replace the Conservatives, but it is hard to see how they can coexist for long. The Reformers' first year in parliament was characterized by eloquent speeches and mistakes caused by inexperience. The party seems to be the creature of one man, Preston Manning, and one doubts whether it can survive his absence. But the Reformers have responded to the concerns of millions of Canadians who feel that they have finally found a voice in the nation's capital.

The New Democratic Party is in trouble. The New Democrats must evaluate their place in Canadian political life. Audrey McLaughlin has taken responsibility for the party's electoral failure and has agreed to resign as party leader. More important, the NDP must evaluate whether it remains the best vehicle to promote social democracy in Canada. For many Canadians, the NDP is an "old party" that is now out of touch with the electorate. The NDP seems irrelevant to many concerned with the growth of markets, the focus on globalization, and the diminished international leverage available to debt- and deficit-ridden governments. The NDP, which once saw itself as in the vanguard of the new left, will have much soul-searching to do in the next few years.

We are left to conclude that the Conservatives were defeated because of economic problems, widespread anger at Brian Mulroney and his policies, Kim Campbell's inexperience and poor campaign machinery, biased media coverage, and the relative strengths of the contending political parties. There is something more of course: Canadians, like their neighbors to the south, wanted a change.

In both countries, citizens evidently want immediate responsiveness from their elected legislators, and these legislators will face the consequences if they do not deliver. In both countries the media is also on trial for its perceived political biases, which have become major stories in themselves. In both countries government's fortunes will follow the economic fortunes of the nation, although in Canada these will be aggravated by the issue of sovereignty. In both Canada and the United States, citizens are demanding an end to high taxes, high deficits, and high unemployment, and politicians have precious little time to address these expectations successfully. Finally, the 1993 election in Canada and the 1992 and 1994 United States elections teach us that the North American electorate is as volatile as it has ever been—and promises to remain so. ■

<sup>3</sup>Alan Frizzell, Jon H. Pammett, and Anthony Westell, *The Canadian General Election of 1988* (Ottawa: Carleton University Press, 1989), p.95.

"From the early 1960s the Canadian federation has been akin to a marriage in which one partner has his or her bags perpetually packed in the vestibule, in full sight of the other partner, as a constant reminder of how tenuous the marriage really is. No marriage can go forward on that basis; nor can a political union."

## Why Quebec and Canada Must Part

BY DAVID J. BERCUSON

A house divided against itself cannot stand.  
—Abraham Lincoln

The immortal words of Abraham Lincoln, uttered in the midst of the Lincoln-Douglas debates of 1858, described an America deeply and bitterly divided over the place slavery was to have in the future of the republic. The issues that divide English-speaking from French-speaking Canadians today are not as stark, dramatic, or fraught with the potential for violence as the great issue that inspired Lincoln, but they are as long-standing, and have proven as impervious to solution.

The Canadian nation is as divided today as it has been at any time since its establishment in 1867. It is not divided over the question of whether or not a great evil will continue to exist, as the United States was before the Civil War. But it is split by two fundamentally different views of the world—one held by a majority of French Quebecers and the other by a majority of English-speaking Canadians inside and outside Quebec. These divergent worldviews have come to the fore because of major changes in Canadian society since 1945, and they have grown increasingly far apart since the beginning of the Quiet Revolution in Quebec in 1960 and the federal government's adoption of the Charter of Rights and Freedoms in 1982.

Since 1960 Canada's history has essentially been the story of one effort after another to patch over the chasm between English-speaking Canadian and French-speaking Quebecois political culture. The road to the second Quebec referendum on secession from Canada—which may be held this year—is paved with the wreckage of earlier agreements: the 1964 Charlottetown Conference, the 1971 Victoria Conference, the 1981 Ottawa Conference, the 1987 Meech Lake Ac-

cord, the 1992 Charlottetown Accord. In each case Canada's leaders tried to square the circle—to reconcile the mounting demands of French Quebecers to create a nation within a nation, and the growing refusal of English-speaking Canadians to make compromises on political principles that they believe constitute the essence of being Canadian.

### TWO WORLDS

The men who created Canada in the mid-1860s were well aware that the new country would contain disparate peoples who had different ways of looking at the world. Canada, in other words, would not be held together by a common national heritage, and would not be like the new nationalist states then forming in Germany and Italy. The founders believed, however, that Canada, like the United Kingdom, would be united by a common allegiance to the monarchy, shared ideals of British constitutionalism (which were strong even in Quebec), and economic self-interest. They were not far wrong, and Canadian unity, though sometimes strained, was for nearly a century never seriously jeopardized.

In June 1960 the Liberal Party came to power in Quebec under the leadership of Jean Lesage. Lesage and his followers took the reins of government from a thoroughly corrupt conservative regime that had held office since 1944. The previous regime had opposed trade unionism, favored foreign capitalists, and supported the Roman Catholic Church's dominant role in education and social services; it did all in its considerable power to keep Quebec rural, Catholic, and conservative. The government refused to cooperate with most federal initiatives in social policy and national economic development, jealously guarding what it believed to be Quebec's constitutional prerogatives.

Lesage's Liberals were determined to move in an entirely different direction. Activists, they believed that if the Quebec government was to succeed in its most important mission—guaranteeing the survival of the province's French-speaking population in a sea of North American "Anglo-Saxondom"—it needed to

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orchestrate Quebec's development. Thus the Lesage administration launched many bold new initiatives, from a government-owned electric power monopoly to a provincial pension plan to a government-owned steel complex. It also began to question whether the traditional division of powers between the federal and provincial governments gave Quebec sufficient jurisdiction to carry out its mission. It concluded that it did not, and began a quest for more power that virtually every Quebec government has since continued. This quest has been linked, sometimes subtly, sometimes openly, with the threat that Quebec would secede from Canada if it did not achieve its constitutional goals.

In English-speaking Canada things had been moving in the opposite direction. From 1948 to 1958 Canada had a virtually open door immigration policy. A large number of the immigrants, who arrived at the rate of about 153,000 a year (close to 1 percent of the total population) throughout the decade, were from central, southern, and eastern Europe. The great majority integrated into the English-speaking milieu, but they did not share the British values or loyalty to the monarchy or the Commonwealth that had once formed the bedrock of English Canadian thinking. One sign of the decreased commitment to Britain was the adoption of the Canadian Bill of Rights in 1960; another was the new national flag displaying the maple leaf, first flown in 1964. As a result of these changes in outlook, Quebecois and other Canadians began to look at themselves, their country, and their governments very differently.

## THE VIEW FROM QUEBEC

Whatever else Quebecers may desire in the way of forms of government, personal liberty, and social programs, what concerns them first and foremost is their survival as a distinct society in North America. Before World War II it was easy for Quebecers to set themselves apart from other North Americans. They were dominated by the Roman Catholic Church; their values were conservative, religious, and family oriented; and they were discouraged by their religious and political leaders from entering into commerce and constantly lectured about the importance of maintaining ties to the land and rural life, even though Quebec was thoroughly urbanized by 1945. Today the only feature that distinguishes Quebecers from other North Americans is their language—and all that language implies by way of modes of expression, culture, the arts, humor, and so on. Anything perceived as threatening the French language—such as an influx into Quebec of immigrants who choose to integrate into an English-speaking milieu—is seen as dangerous. The role of Quebec governments is to ensure that Quebec's distinct language-based culture survives.

When Canada was founded in 1867, the framers of the country's first constitution believed that if the

provinces were given exclusive jurisdiction over education and the French language was afforded special constitutional protections, no other steps were needed to safeguard Quebec's unique heritage. For a generation that view has been rejected by Quebec governments, most intellectuals, a majority of trade unionists, and many journalists in the province. It is now a virtual given for most Quebecers that to safeguard the French language, the government of Quebec must assume powers almost akin to those of a sovereign state (the separatists, of course, want nothing less than full statehood). Since 1960 the province's governments have demanded control over social policy, immigration, investment, communications, broadcasting, manpower training, and other strategic jurisdictions. The government of Premier Robert Bourassa, which preceded the current separatist government, demanded that the Canadian constitution explicitly recognize Quebec as a distinct society, and recognize that the government of Quebec has a specific constitutional obligation to safeguard that status—and the powers to go with it.

The days of the Catholic Church's domination of Quebec's social and educational institutions is long past. Nationalism is the new religion of Quebec, and the state is the new church. In liberal democratic societies such as the United States or the rest of Canada, the state is considered neutral on cultural and religious matters. Not so in Quebec. There, the state is an activist institution charged with the national mission of ensuring the survival of a unique cultural group.

## YOU ARE WHAT YOU SPEAK?

In the 1960s and 1970s, more and more English-speaking Canadians demanded a change in their relationship with their government. They began to push for a constitutionally entrenched charter of rights, and consequently, an end to the parliamentary supremacy that is central to the British tradition. Once English-speaking Canadians grew more familiar with the impact of the Bill of Rights on citizenship in the United States, an overwhelming majority of them supported the adoption of the Charter of Rights and Freedoms in 1982.

University of British Columbia political scientist Alan Cairns has written extensively on the growth of what he calls "Charter nationalism" in English-speaking Canada. This is the increasing tendency of English-speaking Canadians to define themselves politically as a people whose rights are embodied in the 1982 Charter, and to ignore the Crown's sovereignty and act as if the people were sovereign.

These tendencies run counter to the Quebec view of the relationship between Quebec's citizens and their government. In the abstract, Quebecers are no less dedicated to the ideal of individual human rights than other North Americans. Quebec has its own provincial

charter of rights and freedoms that is as encompassing as the 1982 Canadian Charter. For Quebecers, the key question is not whether they should have a constitutionally entrenched charter, but who will control the enforcement of charter rights. Quebec governments since 1982 have been unremittingly hostile to the Canadian Charter of Rights and Freedoms. This hostility is sparked not by objections to specific charter provisions, but because the ultimate arbiter of the charter is the Supreme Court of Canada, which is appointed by the federal government and will always have a majority of English-speaking Canadians among its judges. For Quebec to accept the charter is to therefore accept a status quo in which the relationship of Quebecers to their government, and the range of options available to the Quebec government to "safeguard" the French language, are subject to the approval of the Supreme Court of Canada.

Why is this a problem for Quebecers and not for other Canadians? It goes back to their view of the confederation agreement of 1867, which they see as a constitutional bargain between what they refer to as "two founding peoples": one English-speaking and Protestant, the other French-speaking and Catholic. Today even those Quebecers who consider themselves committed federalists think of Canada as a bicultural state in which the constitutional position of the descendants of the "two founding peoples" must be roughly equal. The country's official dual-language policy rests on this vision.

People who hold this view believe that Canada is not a collection of citizens so much as a partnership of "collectivities," or linguistic communities. This mania to define the nation in terms of collectivities is firmly rooted in Quebec politics. Virtually all Quebecers—even those who are not native French speakers—hold that Quebec society consists of three communities: "francophone," "anglophone," and "allophone," the last composed of immigrants whose mother tongues were neither English nor French.

Similarly, almost all Quebecers see Canada as consisting of French Canadians and English Canadians, the latter everyone not French in origin. English Canadians point out that what the "English Canada" Quebecers see to the east and west of them is actually English-speaking Canada, a society made up of people from many ethnic, racial, religious, and cultural backgrounds. Most Quebecers dismiss this as irrelevant.

This difference in the conception of Canada lies at the heart of the current Canadian dilemma. English-speaking Canada is beginning to think of itself as a nation and as a constitutionally defined people. English-speaking Canadians conceive of Canada as a nation of individual citizens who are equal before the law—regardless of the language their forebears spoke—and who live in a federation of provinces with equal constitutional status. English-speaking Canada is di-

verse, like any society of immigrants; to a considerable degree politically disunited, like any democracy spread out over a large area; and a place of dissonance, like any healthy, vital, creative society.

In English-speaking Canada the state is now almost universally seen as the servant of the individual citizens, charged with ensuring their freedom to develop themselves to the fullest. It is true that the Canada of 1867 was defined as a nation of communities; it is equally true today that that vision of Canada is almost completely dead outside Quebec. Thus very few people in Saskatchewan, for example, would worry much about the prospect of having the province's laws subject to the decisions of a Supreme Court that may or may not have anyone from their province sitting on it.

Quebecers, however, view Canada as a nation of collectivities defined primarily by language. The French collectivity lives primarily in one province (Quebec) and constitutes a majority only in that province; the English collectivity controls nine provinces out of ten, and by virtue of its majority status controls the federal government and all its institutions. This leads directly to the conclusion that Quebec needs special powers to defend itself and cannot be subject to the dictates of institutions representing the collective power of "the English." For Quebecers who hold this view, the Canadian Charter of Rights and Freedoms is nothing more than a potential instrument of oppression.

In the summer of 1989 the Supreme Court of Canada declared unconstitutional those portions of Quebec's language law forbidding the use of English on public signs in the province. The court stepped outside its role of strict judicial arbiter to suggest that a fair compromise between constitutional requirements and the desire of the Quebec government to stress the French-speaking nature of the province might be if the law allowed bilingual signs in which the French was made more prominent by appearing in larger letters than the English. Quebec rejected that suggestion, and instead used a loophole in the Canadian Charter of Rights and Freedoms (the so-called notwithstanding clause, which allows a legislature to sidestep a number of Charter provisions for up to five years) to re-pass the original language law. English-speaking Canadians were outraged—the same outrage that was primarily responsible for the death of the Meech Lake constitutional accord. That accord had been arrived at in the spring of 1987 by Prime Minister Brian Mulroney and all the provincial premiers and was intended to secure Quebec's assent to the constitutional changes of 1982.

### AN IMPOSSIBLE IMPASSE?

Are the differences that divide Quebecers from other Canadians serious enough to warrant a division of the country, or can a reasonable compromise be reached that will allow Canada to continue to exist with somewhat the same structure it has had up to now?

Journalist and historian William Johnson, a seasoned observer of Quebec politics, writes in *A Canadian Myth* that Quebec nationalists are driven primarily by demonology, seeing "English-Canada" as mainly malevolent and bent on the destruction of French Quebec. Johnson traces the roots of this to the British conquest of Quebec in 1759 and to the myths nurtured by French Quebecers to sustain their culture in the years following. Generations of Church leaders, writers, journalists, and intellectuals were bent on proving to French Quebecers that they were under siege, and that only a strong sense of communal solidarity would allow them to sustain their distinct way of life. Johnson convincingly shows that when Jean Lesage and his Liberals launched the Quiet Revolution in the early 1960s they used the language, the images, and the myths of this demonology—combined with the anticolonialism then virulent in the third world—to convince Quebecers that they had been perpetual victims and that the hour of their liberation was at hand.

If Johnson is correct in his analysis, compromise will not be possible because one party to the dispute sees itself—however wrongly—as battling for survival. Indeed, a dispassionate analysis of the events of the last 35 years reveals the complete unwillingness of any Quebec government to unequivocally declare its support for a perpetually united Canada. From the early 1960s the Canadian federation has been akin to a marriage in which one partner has his or her bags perpetually packed in the vestibule, in full sight of the other partner, as a constant reminder of how tenuous the marriage really is. No marriage can go forward on that basis; nor can a political union.

## THE DAMAGE DONE

In the decade between the patriation of the Canadian constitution and the adoption of the Charter of Rights and Freedoms in 1982 and the defeat of the Charlottetown Accord in a national referendum in 1992, untold time, talent, money and goodwill were squandered in an effort to hammer out a constitutional compromise between Quebec and the rest of Canada. The Quebec question is still unresolved, and Canada faces yet another referendum on secession.

The continuing failure to resolve the conflict, despite repeated reassurances that resolution was just around the corner, has reduced Canadians' faith in their leaders and led to a general sense of malaise. Worse, it has produced government by bribery, under which Ottawa has continually attempted to purchase the loyalty of Quebecers by showing them how profitable their membership in the Canadian nation is. Quebec governments have done their utmost to assist that process. In fact, the cornerstone of federalist Premier Robert Bourassa's so-called commitment to a united Canada was *federalisme rentable*—profitable federal-

ism. He saw Canada purely as a balance sheet exercise, never as a nation in the full sense of the word.

Instead of engendering unity, the constant constitutional tinkering between 1982 and 1992 created greater disunity, as expectations were raised and dashed, and then raised and dashed again. Instead of avoiding the issues that divide Canadians the most, and concentrating on the fiscal and economic matters that divide them the least, leaders poured enormous amounts of salt into Canada's constitutional wounds. The consequent national disunity makes tackling contentious problems such as reform of the social welfare system even more difficult than they would otherwise be. Thus Canada stands at the cusp of a major debt crisis because the national government postponed decisive action in its first budget, in early 1994, for fear that it might alienate Quebecers if it cut programs that historically benefited Quebec more than other sections of the country.

Canada has paid a high price for its fundamental disunity in its inability to focus national energies on the achievement of economic objectives. But it continues to pay a high price in other ways as well—in the more than \$160 billion poured into Quebec between 1970 and 1990 (as calculated by University of Calgary economist Robert Mansell) in excess of revenues taken in from the province; and in the dollar/interest rate crises that occur every time support for Quebec separatism increases in public opinion polls. Canada today has the highest real interest rates among developed countries, caused in part by a huge debt loads, and in part by the ongoing Quebec crisis.

## SO LONG, FAREWELL

It is time for Canadians to recognize that the Quebec question cannot be solved unless one of the competing visions of Canada is subordinated to the other. That is not likely to happen. The proof can be found in the results of the referendum on the Charlottetown Accord, which was a jumble of self-contradictory statements that attempted to accommodate both visions of the country into Canada's constitution. Quebecers overwhelmingly rejected the accord because of its emphasis on individual rights and the equality of the provinces; English-speaking Canadians overwhelmingly rejected the accord because it gave Quebec a special status within Canada and Quebecers a set of constitutional rights different from those of other Canadians.

Some Canadian leaders would have Canadians believe that compromise must always be the ultimate objective in a democratic society and that the art of compromise is an especially Canadian one. But when the principles that are being compromised are fundamental to a society's existence, compromise becomes the lowest form of opportunism. That is the case in Canada today, and that is why it is time for Canadians and Quebecers to go their separate ways. ■



"The United States foreign policy apparatus is geared toward putting out fires after they break out. There is not yet a 'fire' to the north, and depending on events in Quebec and the rest of Canada over the course of the next year or so, none may break out."

## And If Quebec Secedes? A View from the United States

BY JOSEPH T. JOCKEL

The United States government has sought long and hard to stay out of Canada's continuing travails on the question of national unity. This year that may have to change.

In December the recently elected premier of Quebec, Jacques Parizeau, introduced in the Quebec National Assembly (the provincial legislature) a draft bill titled "An Act respecting the sovereignty of Quebec," which outlines the process whereby Quebec would leave Canada and become a sovereign state. The bill entails a public referendum that will almost certainly be held this year, perhaps as early as June. If there is a "yes" vote the Quebec government will issue a unilateral declaration of independence.

The impending referendum will not be the first time Quebecers have been asked to set the independence machinery in motion. In a 1980 referendum they turned down a proposal that would have given the provincial government a mandate to negotiate a "sovereignty-association" arrangement with Canada.

Nor will it be the first time the Quebec National Assembly will have adopted a bill providing for a unilateral declaration of independence after a referendum. In 1991 such a bill was approved at the behest of an essentially federalist Quebec government hoping to buy time with separatist sentiment running high in the province; it also hoped to threaten the rest of the country into constitutional concessions by holding—as it was described at the time—"a knife to its throat." The provisions of the act, which called for a declaration of independence following a referendum, were repealed the next year in favor of a package of constitutional reforms dubbed the "Charlottetown Accord" (after the capital of Prince Edward Island where it was finalized). Although endorsed by the

federal government, all 10 provincial governments, all the major federal parties of the day, and the leaders of Canada's aboriginal peoples, the accord was promptly repudiated by Quebecers and English Canadians alike in referendums held across the country in October 1992.

Parizeau's Parti Québécois (PQ) government, in contrast to its federalist predecessor, is serious about independence. "Quebec is a sovereign country," the draft bill's first section reads. Sovereignty, however, will only become effective one year after a majority of the Quebec electorate answers the following question affirmatively: "Are you in favour of the Act passed by the National Assembly declaring the sovereignty of Quebec?"

At present it appears the yes side will have trouble winning the referendum. Public opinion polls continue to show no majority in favor of a "yes." But this is not to say that the separatists will be without formidable assets in the days leading up to the referendum campaign; many English Canadians have grown altogether too complacent about the referendum's outcome. Above all, the PQ controls the information machinery of the provincial government, which it put to obvious use last December when it sent copies of the bill to all Quebec households.

### PAIN-FREE SECESSION

The draft act itself paints an attractive picture of the sovereign Quebec that the electorate will be invited to endorse in the referendum. According to the document, the Quebec government will negotiate an economic association with Canada and an agreement dividing up Canada's assets and debts; the Canadian dollar will be retained as Quebec's legal currency. A new constitution will incorporate a bill of rights guaranteeing protection for the English-speaking minority and aboriginal peoples. Sovereign Quebec will keep its current borders. Quebec citizenship can be held concurrently with Canadian citizenship, while pensions and other payments to the elderly will continue under current rates and conditions.

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The transition to sovereignty would be smoothed by Quebec's assumption of the status of a successor state with regard to Canada's international agreements. Thus the Quebec government would need only to take the steps necessary "to remain" (as the bill puts it) a member of such institutions as the Commonwealth, the French-speaking community of nations, NATO, the North American Free Trade Agreement (NAFTA), and the North American Aerospace Defense Command (NORAD). Quebec would also join the United Nations.

Finally, Premier Parizeau announced that the text of the declaration of sovereignty would be drafted in early 1995 through a process of popular consultation largely based on regional gatherings, after which the sovereignty bill will be formally adopted by the National Assembly. Federalist forces in the province, in particular opposition leader Daniel Johnson, leader of the Quebec Liberal Party, have refused to participate, charging that the consultation process is in effect a taxpayer-supported effort to begin the "yes" campaign ahead of time. But the PQ helped ensure its viewpoint's early success by recruiting prominent Quebecers to head the regional gatherings in Montreal and Quebec City.

In one very important respect, Quebec federalists and their allies in the rest of the country will be handicapped during the referendum campaign: their only real alternative to the PQ sovereignty bill is the Canadian constitutional status quo. In previous struggles over the province's future, federalists were able to hold out the possibility of constitutional change in Canada, involving at least some transfer of authority from the federal government to Quebec or the constitutional recognition of Quebec's distinctiveness within Canada. This is now out of the question.

Unsurprisingly, the Liberal Party federal government of Prime Minister Jean Chrétien, which came to power in 1993, has not bothered to formulate or endorse an alternative constitutional package. It has two main arguments in making a case to Quebecers for a "no" vote. The first—and the one it will no doubt continue to emphasize—is that Quebecers benefit handsomely from their province's membership in a prosperous, democratic, and internationally well-connected Canada that already provides ample authority for their provincial government.

The second argument is that, promises in the draft sovereignty bill notwithstanding, Quebec would leave Canada in a climate of bitterness. Given the recent hardening in English Canadian attitudes toward Quebec, there seems to be a good deal of truth to this argument; it is difficult to see the voters of English Canada readily approving amendments to the constitution that would provide for Quebec's independence on "soft" terms, including a close Canada-Quebec association. But the federal government will probably not rely on this second argument, out of fear that it could backfire and stir up resentment in Quebec. Thus Prime Minister Chrétien has refused to enter into any real

discussion of how Ottawa and English Canada would react to a yes vote.

Parizeau is in fact counting on the emergence in the coming months of mutual recrimination between an understandably irritated English Canada and a resentful Quebec; this is the final element of his strategy for winning the referendum. Referring to an incident some years ago in which several English Canadians stomped on the Quebec flag—an incident shown again and again on Quebec television—Parizeau recently told the *Los Angeles Times*, "I can't say I'm a superb tactician. . . . Get me a half-dozen Ontarians who put their feet to the Quebec flag and I've got it." While the federal government will continue to exercise restraint, and apparently has convinced the premiers of the nine predominantly English-speaking provinces to curb their tongues, other English Canadians will undoubtedly vent their irritation.

There is a cool logic to the PQ sovereignty bill. Since English Canada will almost certainly not formally sanction it, Quebec can obtain independence only through the unilateral declaration. And since English Canada will not negotiate in advance a Quebec-Canada association or even a simple division of assets and debts, such negotiations can only begin once Quebecers have set the mechanism of the declaration irrevocably in motion with a yes vote in the referendum—confronting English Canada with a decision.

But the draft bill, in its assertion of Quebec's right to leave unilaterally on "soft" terms, will itself whip up mutual recrimination. The federal government, despite its self-imposed restraint, has been put in the position of having to deny the bill's constitutional legitimacy. The Canadian constitution makes no provision for a province's secession on its own authority. Either of two formulas for amending the constitution could be used. One requires the approval of the federal parliament and all provincial legislatures; the other requires parliament's approval and that of the legislatures of seven provinces constituting 50 percent of the country's population. While not constitutionally required, it is highly unlikely that parliament or the provincial legislatures would act without first obtaining popular approval in English Canada.

## THE US: CAUGHT BETWEEN QUEBEC AND THE REST OF CANADA

Since the rise of the modern Quebec separatist movement in the late 1960s and the early 1970s, Quebecers have been intensely interested in the approach the United States would take toward a sovereign Quebec. Early speculation that Washington, fearing a "Cuba to the north," might intervene, perhaps even militarily, to block independence eventually subsided. Then came worries about how close a relationship—especially economic—the United States would want to forge with an independent Quebec, and even whether the United States would want to encourage a close

Canada-Quebec association in the event Quebec actually opted for independence.<sup>1</sup> Most recently, the question of whether the United States would allow the incorporation of a sovereign Quebec into NAFTA has become nothing short of central for Quebecers as they consider their constitutional future.

The United States has studiously avoided giving answers to any of these questions, adhering to its policy of noninvolvement in the Canadian debate. This approach was encapsulated almost two decades ago in a brief policy statement on Canadian unity now known as "the mantra" or "the litany," which United States officials have chanted at all appropriate occasions. Subject over the years to some variation, the official version currently runs: "The United States enjoys excellent relations with a strong and united Canada. Canada's political future naturally is for Canadians to decide." United States officials generally turn down requests for further clarification and decline to enter into discussions concerning possible action by Washington if Canada does indeed begin to break up.

There are several good reasons for the United States government to stick to the mantra. Above all, there is a moral one: since Canada is a sovereign and democratic country, it would be wrong for the United States to intervene in the basic decisions Quebecers and other Canadians are making about their political and constitutional future. In addition, any United States involvement, even confined to commentary, could be counterproductive. Many Quebecers—and for that matter, English Canadians—would be offended and resentful if the colossus to the south attempted to insert itself into the Canadian debate.

Nonetheless, as the mantra indicates, the United States has some fundamental interests in North America, especially in the economic health of the country or countries to its north; in the free flow of goods, capital, and services on the continent; in protecting the environment; and in defense. This leads to several conclusions concerning the United States and Quebec independence.

It is clearly in the United States interest that Canada remain united. Canada is the most important trading partner of the United States (it buys more American goods than any other country). It is also an important destination for United States foreign direct investment. It is (more or less) a single market under the authority (again, more or less) of one federal government. The division of this market among several sovereign states can only create new uncertainties and risks for Americans. Americans also hold a significant amount of the debt incurred by the Canadian federal and provincial governments, and here too the country's breakup can only lead to unhappy uncertainties.

During the early decades of the cold war, Canadian territory and airspace played an essential role in the defense of North America against nuclear attack. But their importance diminished as the threat shifted away from manned bombers and toward ballistic missiles; moreover, none of the current missile detection systems are located in Canada or operated by Canadians. More recently, the demise of the Soviet Union brought a further relaxation of concerns. So Quebec independence would not pose a fundamental security threat to the United States.

More significantly, a grossly disrupted Canada that had lost, through Quebec's independence, a quarter of its population and its gross domestic product, would probably be unable to maintain a constructive profile in world affairs, including its leading role in international peacekeeping. Clearly this would not be in the interest of the United States.

Finally, the United States has to worry about the stability of English Canada should Quebec secede. Canada without Quebec would become a geographic curiosity. This gravely wounded Canada might want to strengthen its internal ties by actively trying to distinguish itself from the United States through its domestic, trade, and global foreign policies.

Another possibility is that the strains of holding Canada together would precipitate greater disintegration. At the very least this could lead to the further division of the Canadian economy, to the disadvantage of economic relations with the United States. It also raises the specter of parts of Canada applying for admission to the United States. While some Americans would no doubt be heartened at the thought of the Stars and Stripes flying from the Rio Grande to the North Pole, it is not at all obvious that the Canadian provinces, with their distinctive economic, social, and political systems, could be easily incorporated into the American union. And to be blunt about it, the poorer provinces would probably be the most interested in joining the United States.

Second, faced with a Canadian breakup, the United States would have every incentive to continue to pursue the free flow of goods, capital, and services in North America. To the extent the Canadian economic "space" could be maintained by Canadians and Quebecers, the United States would also benefit. The United States would have every incentive to foster Quebec's membership and participation in international organizations, including NATO and the UN. Wisdom would also dictate pursuing negotiations with Canada and Quebec to continue a host of other North American transborder arrangements, such as those concerning environmental protection, taxation, telecommunications, transportation, law enforcement, agriculture, health, and pensions.

A third and final conclusion: there is inherent tension between the interests of the United States in advance of Quebec secession and after it, should it ever

<sup>1</sup>For a history of United States policy toward the Quebec separatist movement, see Jean-François Lisée, *In the Eye of the Eagle* (Toronto: HarperCollins, 1990).

occur. Americans have to hope fervently that Canadian federalist forces will prevail. But if they do not, the arguments of the Quebec separatists for the establishment of a close relationship between Canada, Quebec, and the United States should become apparent.

There is today, however, no official United States policy providing for the negotiation of a such a relationship should Quebec become independent. To articulate one would not only clash with the rationale for noninterference but would undermine United States interest in a united Canada by openly admitting the postseparation logic of the separatists' argument. It is also extremely unlikely that such a policy exists in secret. The United States foreign policy apparatus is geared toward putting out fires after they break out. There is not yet a "fire" to the north, and depending on events in Quebec and the rest of Canada over the course of the next year or so, none may break out.

Quebec separatists must not assume that if they are successful the United States would automatically be prepared to act in the overall interests of the United States as have been outlined. One cannot dismiss the possibility that Congress would deny Quebec's admission to NAFTA, even for political reasons unrelated to Quebec-United States relations. Applying the terms of NAFTA to Quebec would also require real talks whose results would also have to meet congressional approval.

Despite the self-restraint of American officialdom, the tension between United States interests before and after Quebec secession has frequently played a role in the debate in Quebec. Federalists have seized on the obvious aversion among Americans toward Quebec independence, while separatists have pounced on any statement indicating that the United States would have a strong interest in close ties after separation. Official United States silence has also over the years allowed Quebec separatists to return from visits to the United States and intimate that in their private discussions they heard that the aversion to independence for the province does not run deep.

In the period leading up to the referendum in Quebec, the United States government can be expected to stick to its mantra. Observers in both the United States and Canada, however, will be listening closely during President Bill Clinton's visit to Canada, expected in late February 1995, for any reformulation of his government's public approach that would place an emphasis on the hope that Canada remains united.

### IF THEY SAY YES

But what if the Quebec electorate votes yes in the referendum? What should the United States government do then?

It would be infinitely easier for Washington if Ottawa were to accept the legitimacy of the mandate and negotiate the transition to independence with Quebec. At some point fairly early in the talks, the United States government could enter in, especially

with a view to putting in place the adjustments to arrangements between Canada and the United States that would take effect at the moment of Quebec independence.

As was noted, the most important issue between Quebec and the United States—Quebec's admission to NAFTA—would require careful and difficult negotiations that would almost certainly require invocation of the agreement's accession clause, which would then involve action by the United States Congress as well as the Canadian and Mexican governments. In other words, despite the assertion in the draft "Act respecting the sovereignty of Quebec," ready admission to NAFTA through reliance on successor state status does not appear to be available.

However, the United States would surely want to facilitate the adaptation of other Canada-United States arrangements, as well as multilateral instruments and organizations to Quebec independence, relying on the appropriate procedures in international law. It would also make sense for Washington in the course of the discussions to encourage Quebec and Canada to enter into as close an association with one another as possible.

Yet even if Ottawa were prepared to negotiate a "soft" arrangement with Quebec, this easily could be rejected by English Canadians. Or the Ottawa-Quebec City negotiations themselves might break down, or Ottawa might simply refuse from the outset to negotiate Quebec independence, especially if only a small majority voted for it. All these very real possibilities in the event of a yes vote would probably result in the Parti Québécois government's issuing a unilateral declaration of independence, in conformity with the sovereignty act but in violation of the Canadian constitution. Quebec City would then appeal to other countries, including the United States, for recognition.

At the moment, little can be said with any certainty about how Washington would or should react to such an unsettling event. It is clear the United States government would be under no legal obligation to recognize Quebec's sovereignty, even if Quebec were to meet the traditional international legal criteria for statehood. Recognition requires political as well as legal judgments.

The United States could try to steer clear of the dispute, although withholding recognition of Quebec's sovereignty would tacitly align Washington with Ottawa. Alternatively, it could attempt to play mediator, though to do so from a neutral position could be extremely difficult. Would Washington want to encourage Canadians to accept Quebec independence, or the Quebec government to reconsider the declaration of independence?

At the moment, it appears that the "no" will prevail in the impending Quebec referendum, but a "yes" would require substantial rethinking of United States policy toward Canada. ■



"Are the new Republican congressional majorities a development soon to be reversed, or a change that will endure for many years? Unless one believes the major events in American political history are merely episodes in a predetermined cycle (and there are a few political commentators who come close to that view), the answer has to be that we don't know yet."

## America at the Polls: The Puzzle of 1994

BY WILLIAM G. MAYER

At the most obvious level, there is nothing especially puzzling about the results of the 1994 American midterm elections. Simply put, 1994 was a banner year for the Republican Party. Even the most determined Democratic spin doctor would have difficulty placing a pro-Democratic gloss on the outcome of the elections held November 8.

The greatest shockwave came from the House of Representatives, where Republicans picked up 53 seats, giving them a majority in that body for the first time in 40 years (230 to 204, with 1 independent) and ending the longest unbroken period of one-party control in American history. The Republicans also picked up 8 seats in the Senate, which, along with the postelection defection of Democrat Richard Shelby of Alabama, gave them a 53 to 47 advantage.

The GOP posted significant gains at the state level as well. In particular, they added 11 more governorships to the Republican column, giving them a total of 30, including those in 8 of the 9 most populous states. To add insult to injury, the 1994 elections brought defeat to some of the brightest stars in the Democratic firmament: Speaker of the House Tom Foley of Washington (the first sitting speaker to be voted out in 132 years), Ways and Means Committee chairman Daniel Rostenkowski of Illinois, Governors Mario Cuomo of New York and Ann Richards of Texas, and Senator Jim Sasser of Tennessee (who had looked to have a good shot at becoming the next majority leader).

But the elections become puzzling when we attempt to explain this remarkable turn of events. Over the past 20 or so years, political scientists have produced a substantial body of writing about midterm elections. This literature begins with the observation that mid-

term balloting almost invariably results in a loss of seats for the incumbent president's party; not since 1934 has the president's party actually increased its representation in the House and the Senate at midterm. But what determines the size of the incumbent party's losses? Why did the Democrats, for example, lose only 4 House seats in 1962, but 47 in 1966? Going into the voting last November, most American election scholars thought they had a good handle on this question, believing that three or four factors generally explained why midterm elections turn out the way they do. But one of the most striking features of the 1994 vote is how poorly these conventional explanations work in accounting for the huge Republican surge. In fact, almost all the received wisdom suggests that 1994 should have been a pretty good year for the Democrats.

Actually, to be a little more precise, it is the Republican takeover of the House of Representatives that is the real puzzle. The GOP gains in the Senate are easier to explain. Two factors in particular—exposure, or the number of seats up for election, and voluntary retirements—indicated well in advance that 1994 might be a bad year for Senate Democrats.

In any given election year, only about one-third of the Senate's seats actually come before the voters. The other two-thirds were filled two or four years earlier, and barring death or resignation, won't be on the ballot. The partisan composition of the seats that are up for election, then, is an important first clue as to how many seats each party can expect to gain or lose.

In 1994, 35 Senate seats were at stake (the usual 33, plus 2 others from which the incumbents were resigning). But of these 35, Democrats held 22. In other words, the Democrats would have had to win more than 60 percent of the Senate seats in 1994 just to stay even. The Republicans, by contrast, entered the election season knowing that if they won just half the Senate elections they would actually gain 5 seats.

The other factor that made 1994 look like a risky year for Democrats in the Senate was the pattern of voluntary retirements. Even in an era when the public

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**The 1994 Midterm Elections**

	Composition of New Congress	Composition of Old Congress	Change
<b>HOUSE OF REPRESENTATIVES</b>			
Republicans	230	177	+53
Democrats	204	256	-52
Other	1	1	0
Vacant		1	
<b>SENATE<sup>1</sup></b>			
Republicans	53	44	+8
Democrats	47	56	-8
<b>GOVERNORSHIPS</b>			
Republicans	30	19	+11
Democrats	19	29	-10
Independents	1	2	-1

<sup>1</sup>The Republicans gained 8 seats in the elections. The day after the vote Senator Richard Shelby of Alabama, who had been elected as a Democrat, announced that he was switching parties to become a Republican.

mood is said to be vigorously anti-incumbent, being an incumbent still helps. In each of the last six elections, at least three-quarters of the senators running for reelection won. So it was hardly good news for the Democrats that of the nine senators who had announced they would not seek reelection in 1994, six were Democrats. In the end, only two incumbent Democratic senators were defeated; the other six seats gained by the GOP were won in races where a Democratic incumbent was retiring.

Neither of these factors guaranteed a Republican takeover of the Senate, of course. The issues, the candidates, the mood of the electorate, and plain unvarnished luck all had their say in the voting. We still need to explain, for example, why all six of the retiring Senate Democrats were succeeded by Republicans, while none of the retiring Republicans was replaced by a Democrat. But exposure and retirements did create a set of background conditions that were highly unfavorable to the Democrats. Review the press coverage of the Senate elections from the first six months of 1994, and you can find a fair number of journalists and commentators who predicted, as *Congressional Quarterly* put it, that "history and pure math [would] work against the Democrats this year."

#### **REASONS FOR HOUSE-CLEANING: A LOOK AT THE USUAL SUSPECTS**

What took place in the House of Representatives, however, is quite a different story. Here history plainly

suggested that 1994 would probably end with the Democrats still solidly in the majority. After all, that was what had happened in every one of the 20 preceding congressional elections. Indeed, since 1956, the largest number of House seats won by the Republican Party was 192 (in 1968, 1972, and 1980)—which still left them 51 votes behind the Democrats.

Why did the 1994 elections take such a radically different turn? At the beginning of last year, there was a clear consensus in American political science that the aggregate outcome of a midterm election—more specifically, how many seats are lost by the party of the incumbent president—was generally determined by three principal factors: the number of seats each party held going into the election, the state of the economy, and the president's popularity. Each merits a closer examination.

**Exposure** In elections for the House of Representatives, much as in those for the Senate, the gains or losses experienced by each party depend to some extent on the number of seats they have going into the election. All other things being equal, a party that does unusually well in one election is likely to lose a lot of seats in the next round of voting. This explains, for example, why the Democrats lost 47 seats in the 1966 midterms. In absolute numbers 1966 was not an especially bad year for the Democrats; they won 248 seats. But this was the first election after 1964, when the number of Democrats in the House had soared to its highest level (295) since the depths of the Great Depression. Absent all the special features of 1964—in particular, the unpopular figure of Barry Goldwater at the top of their ticket—the Republicans were all but certain to reclaim quite a bit of lost territory.

But exposure provides little purchase for explaining why 1994 turned out to be such a bad year for House Democrats. In 1992, the Democrats had won 258 seats—a healthy majority, to be sure, but not an especially large one as recent House elections go. In fact, in the seven congressional elections between 1980 and 1992, the Democrats had averaged almost exactly 258 seats.

**The State of the Economy** Political scientists and economists have found that voting at nearly all levels in the United States (and in every other Western democracy) is strongly influenced by the overall growth rate of the macroeconomy over a comparatively short timespan (about 6 to 12 months) before the election.

Not surprisingly, when the economy is growing the president's party tends to do comparatively well in House races. When the economy is stagnant or in recession, some (though not all) voters express their frustration by casting ballots for the opposition party. It is no accident, then, that of the four largest losses experienced by the president's party in midterm elec-

tions between 1954 and 1990, three—in 1958, 1974, and 1982—occurred during a period of economic dislocation.

But as with exposure, the state of the economy does not take us far in explaining what happened to the Democrats in 1994—simply because 1994 was not a bad year for the economy. The American economy grew at a fairly robust pace throughout the year. When compared with the economic record of Eisenhower in 1958, Ford and Nixon in 1974, and Reagan in 1982, Clinton's performance as chief manager of the United States macroeconomy was nowhere near bad enough to explain why his party lost 52 seats.

*The President's Popularity* If one explanation predominated in media postmortems of the 1994 elections, it was that the voting represented a decisive rejection of President Bill Clinton. And as we will see shortly, there is good reason to think that Clinton's standing with the American public played a major role. But in its simplest form, the "it's all Clinton's fault" explanation founders on one basic fact: press commentary and talk-show rantings aside, Bill Clinton was not all that unpopular.

For most of the last 50 years, political scientists, media commentators, and pollsters from both sides of the political spectrum have relied overwhelmingly on one survey question as a standard measure of presidential popularity. The question, which was originally developed by the Gallup Poll and has been asked regularly since the mid-1940s, runs as follows: "Do you approve or disapprove of the way [president's name] is handling his job as president?" During each recent presidency, one survey organization or another has posed this question to a national sample on an almost weekly basis; special attention is devoted to the percentage of respondents saying they approve of the president's performance, generally known as his approval rating.

Clinton was not threatening to set any new records as the most popular president of the last 40 years. But neither did he stand out as exceptionally unpopular. He came nowhere near the level of opprobrium visited on Richard Nixon during the final days of Watergate. He was also more popular than Jimmy Carter and Ronald Reagan had been at a similar point in their presidencies. Or consider another perspective. It has been estimated that in order to get reelected, an incumbent president usually needs an approval rating of about 50 percent. Clinton was below this level—but not *that* far below.

In short, of the three factors that political scientists have usually employed to explain the turnover in House seats at a midterm election, none come close to explaining the Great Republican Tidal Wave of 1994. Indeed, all three suggest that 1994 should actually have been a rather good year for House Democrats.

## TWO OTHER "EXPLANATIONS"

Early analysis of the 1994 election results featured a number of other putative explanations for the Republican takeover of the House. But these too provide little real understanding of the event.

*The South* Republican gains in the South received special attention. Since the Democrats established themselves in the early 1960s as the party most supportive of civil rights and racial equality, there had been a remarkable disjunction between southern voting at the presidential level, where the region quickly emerged as one of the most strongly Republican areas in the country, and its record in congressional elections, where the Democrats remained in solid control. To be sure, Republican strength in southern congressional elections has been growing slowly but steadily since the 1950s. But that said, it is hard not to regard 1994 as a watershed. For the first time since Reconstruction, the Republicans actually won a majority of southern seats in the United States House and Senate.

As significant as this development may be from a long-term perspective, the South in 1994 was still one of the most relatively Democratic regions in the country. While the GOP won 64 of 125 (51 percent) House seats in the 11 former Confederate states, it claimed 57 of 99 (58 percent) in the West and 63 of 109 (58 percent) in the Midwest. Even in the Northeast, the Republicans held the Democrats to a very narrow margin of victory, winning 45 percent of the seats. Clearly, the Republicans became the majority party in Congress in 1994 not just because they made gains in the South but because they ran well in all regions of the country.

*Anti-incumbency* As the 1994 campaigns got under way, the American people were told—over and over again—that their mood was one of anger, frustration, and resentment. Public opinion polls repeatedly showed that Americans disliked politicians as a group, that they distrusted government in general, and that their faith in the political process was at a remarkably low ebb.

Yet any simple declaration that the elections were merely a vote against incumbents runs up against too many facts to the contrary. Most obviously, 1994 was not a bad year for all incumbents; in fact, not one Republican incumbent representative, senator, or governor who sought reelection was defeated. Even among Democrats, most congressional incumbents fared well. In the House, 35 Democratic incumbents were defeated, but 190 others were returned to office. As we have already seen, most of the Republican gains in the Senate came in seats where a Democratic incumbent was retiring; 14 of 16 Democratic incumbents on the ballot were successful.

Perhaps the greatest problem with the anti-incumbent explanation, however, is its failure to explain what

was unique about 1994. The public mood last year may have been angry, frustrated, and distrustful, but almost the same description could be applied to the electorate in 1978, 1982, and 1990. The more significant question is why this mood resulted in such an enormous loss of seats for the president's party in 1994. Clearly, something else was at work.

### FINDING THE GUILTY PARTY

That something else was a remarkable reinvigoration of the public's sense of party responsibility. President Clinton may not have been especially unpopular in 1994, but there is evidence to suggest that the people who disapproved of his performance were unusually willing to express their frustrations by voting against congressional candidates who belonged to his party.

If this seems a rather commonplace form of behavior, it is not. As students of congressional behavior have noted, one of the greatest problems with Congress over the last 30 years or so has been the progressive decline of collective responsibility. Individual senators and representatives are held accountable for their own votes and what they deliver for their own states or districts. But who gets credited or blamed for the performance of Congress as a whole? Who ensures that each representative's determination to do what is best for his or her district doesn't result in unacceptable consequences for the nation?

Increasingly the answer to both questions has been: no one. Few if any representatives go back to their districts at election time and say, "I'm the incumbent. I'm a loyal member of the majority party. If you like the way things are working, vote for me. If you don't, then vote me out." Instead, as congressional scholar Richard Fenno has shown, most representatives—in both parties—run for Congress by running *against* Congress. That is, most congressional candidates try their best to distance themselves from the way the country or Congress is doing. Even if the president is a member of their own party, congressional aspirants rarely make an effort to link their political fortunes with the man in the White House; this is especially true if the chief executive is unpopular. Instead, candidates usually advertise their personal qualities, what they have done for the district, and their independence from the party leadership.

Of course congressional candidates are not always successful with this gambit. But enough are to produce a sizable gulf between the popularity of the president and the fate of his party's congressional contingent. In both 1986 and 1990, for example, there was a relationship between a respondent's view of the president's job performance and his or her vote for Congress. It was, however, a fairly attenuated relationship. In both years almost 40 percent of the people who approved of Ronald Reagan's performance as president voted for a

Democratic candidate for the House. At the same time, about one in four people who disapproved of the president voted Republican at the congressional level.

In 1994, however, the relationship between attitude toward the president and a voter's ballot for Congress was much tighter. Of those who approved of Clinton's handling of his job, only 16 percent voted for the opposition party. Among those who disapproved of Clinton, 82 percent voted Republican.

This finding begs a further question: Why were congressional Democrats held accountable for Clinton's performance? What accounts for this increasing sense of party responsibility?

*The End of Divided Government* First among the factors promoting partisan accountability in the mid-term elections was that this was the first election in 12 years in which one party was clearly in control of both the executive and legislative branches. If a voter was upset by the state of the nation in 1988, 1990, or 1992, it was by no means obvious whom he or she should blame. The Republicans controlled the White House, but Republican presidents could (and did) argue that many of their favorite proposals were thwarted by a Democratic Congress. After 1992, however, Congress and the presidency were securely in Democratic hands. While Democrats could (and occasionally did) argue that their policies and leadership should be given a longer trial than two years, they could not credibly claim that Republican officeholders were the principal obstacle to progress.

In fact, the link between unified government and party accountability was frequently stressed by the Democrats themselves before and immediately after the 1992 elections. Appealing to voters upset with the sense of drift and stagnation that marked the final year and a half of the Bush presidency, candidate Clinton and his supporters argued that the only way to end the "gridlock" was to put both the presidency and Congress under one party's control. And when the new Congress succeeded in passing several high-profile pieces of legislation in its first few weeks, the Democrats loudly—and as it turned out, prematurely—proclaimed "the end of gridlock." Like many other campaign promises, this one came back to haunt the party that made it.

*The Tax Increase* Of all the actions taken by Clinton during his first two years in office, none had greater consequences than the tax increase he pushed through Congress in the summer of 1993. Taxes had been raised a number of times during the Reagan and Bush presidencies, but there was no easy way to affix party responsibility. The Bush tax increase of 1990, in particular, had been a clearly bipartisan initiative. Democrats agreed to vote for the plan only after Bush himself signed on and promised to deliver a sizable



number of Republican votes. The 1993 tax hike, by contrast, was definitely a Democratic proposal. Not only did the idea originate with the Clinton White House, but not one Republican in either the House or the Senate voted to approve the final legislation.

Besides its clearly partisan heritage, the timing of the 1993 tax increase almost seemed designed to do maximum damage to congressional Democrats. As political scientist Gary Jacobson has shown, American voters were very upset about the 1990 tax hike, but the action on that bill took place too late in the election cycle for most voters to do much about their anger. By the time the increase was passed—late October—the midterm elections were only a few weeks away. Many of the Republicans and Democrats who voted in favor of it were unopposed for reelection; others had only token opposition, and no candidate could hope to raise funds or organize a serious campaign against them with so little time remaining. The Clinton tax bill, by contrast, became law about 15 months before the midterm elections. It thus gave the Republicans a wonderful rallying cry with which to drum up campaign funds and persuade potentially strong candidates to enter the race.

*The Contract with America* A final factor that helped promote party responsibility was the House Republican leadership's decision to put together a set of 10 specific policy proposals, which was then publicly endorsed by 367 Republican congressional candidates. This widely publicized document, known as the "Contract with America," was initially portrayed by many Democrats as a colossal tactical error. But in the end the contract probably aided the GOP cause.

First, the contract helped neutralize what had been perhaps the leading Democratic criticism of congressional Republicans: that their agenda was purely negative, and that while vehemently opposing the Clinton program, they had nothing of their own to offer in its place. More important, the contract also worked to nationalize the midterm elections by suggesting to the American public that the vote was not just about who could do more for their local district, but about national policies and a choice between two visions of the country's future. The Democrats' decision to launch a frontal attack on the Republican contract (and to offer none of their own) made it that much more difficult for Democratic congressional candidates to distance themselves from their party's national image and performance.

## TIME OUT OF JOINT

The 1994 midterm elections were not just "politics as usual." Not only did they bring an end to four decades of Democratic majorities in the House of Representatives, but they also defied most of the conventional wisdom about congressional elections.

What remains to be seen, however, is the significance of the 1994 vote over the long term. Consider two possible analogies.

One: The 1894 midterm elections saw some of the largest Republican gains in the party's history, bringing to power new GOP majorities in the House and the Senate. More than that, 1894 is widely recognized today as the beginning of the end for a political era that had been generally characterized by Republican presidents and Democratic congressional majorities; it marked the onset of a new period of unified Republican dominance. By 1896 the Republicans had also won back the White House, and solidified their hold on Congress. Not until 1910 did the Democrats finally succeed in cracking the GOP's hold over the executive and legislative branches.

Two: The 1946 congressional elections were also a very good year for the Republican Party. But unlike 1894, the GOP gains immediately following World War II were in retrospect no more than a blip in the broad sweep of American electoral history. Though Republicans confidently expected to win the presidency in 1948 and finally put an end to the Democratic era that had begun in the early 1930s, they were disappointed on both counts. President Harry Truman was elected to a second term in office and brought with him new Democratic majorities in the House and the Senate.

What will historians make of the events of 1994 30 or 50 years from now? Are the new Republican congressional majorities a development soon to be reversed, or a change that will endure for many years? Unless one believes the major events in American political history are merely episodes in a predetermined cycle (and there are a few political commentators who come close to that view), the answer has to be that we don't know yet. It will depend on a host of unpredictable factors—in particular, on whether the new Republican Congress can pass its ambitious policy agenda, and on how successful those policies are at meeting the major challenges facing the country at the dawn of the twenty-first century.

Like Hamlet, we know that "the time is out of joint." But the rest of the play remains unwritten. ■



Domestic concerns have taken precedence over foreign concerns in American politics—and the Clinton administration seems happy to oblige the shift. The rise of a neo-isolationist impulse needs to be countered, but is the administration up to the task?

## America and the World: Drift and. . . ?

BY WILLIAM W. FINAN, JR.

The fifth anniversary of the Berlin Wall's fall has come and gone; the one marking the end of the Soviet Union will soon be on us. Like that celebrating the events of 1989, the Soviet date will no doubt be a desultory affair. The photographs of the all-night party atop the concrete barrier that divided Europe—that divided "us" from "them"—and then those of a defiant Boris Yeltsin at the Russian White House defending democracy from communism, now evoke only a warm memory. Those days were the elixir that fueled a binge that only in the last year or so has come to an end as the victorious revelers have found themselves staring into the harsh light of day, wondering into what they have awakened.

It is not a pretty picture. A multitude of miniwars rage across the globe, most unheard and unseen without the snout of the camera shoved into the bloody business. Midtier developing countries nurse their financial and political wounds having believed the developed world's promises that they would receive more than a kind pat on the head if they jumped through the free market hoop. And the "us" seemingly paralyzed; the common purpose disappeared and attempts to define one (with the exception of the Persian Gulf War) subject to enervating internecine bickering.

No war ends without victors and victims. And the cold war—as bloodless as it seemed—was no exception. But for a victor Americans act surprisingly like a victim. They are constantly being "taken"—"our boys," "our money" seem to be the salve for all the world's ills. Such fatigue and antagonism might be understandable if the United States had undergone the trauma of a hot war, and needed to turn inward to repair the destruction wrought by it. But the United States has just won a war physically unscathed. The decayed cities, racial animosities, and culture of violence that

infect the country are not the result of the cold war; marginalized by it yes, caused by it no.

The popular sentiment seems to be: we whipped the Soviets, let's get on with our own affairs. Welfare queens, public funding for the arts, drugs, crime, illegal aliens, government regulations, taxes, gay rights, lenient courts, political correctness, the subversion of "normal" America's moral agenda by closet McGovernites: these are the enemies to be confronted now that communism has been emptied into the dustbin of history.

The sentiment is telling. Americans view their ills as so unique and overwhelming that they need not bother with what is happening "out there"; we have our own—and our own issues—to deal with. Concern with the outside world is exhibited by exhorting one's children to clean their plates at dinner; there are starving people in Africa.

### GREAT WALL SYNDROME

A new isolationism is emerging in America. Unlike the last expression of isolationism, however, today's America Firsters have realized that, while good fences made good neighbors, it pays to keep a guard dog on the perimeter. Hence the desire for a strong defense and aggressive, protectionist trade policies. The need to engage with other nations diplomatically is also considered a necessity; so far as no one has, like the *New York Herald* in 1892, urged the abolition of the State Department and the recall of "our farcical diplomats."

This urge to continue engagement with the outside world is also found in the public's seemingly contradictory views about what America's role should be in the world. As Daniel Yankelovich and John Immerwahr have noted, "[T]he appeal of a special leadership role in world affairs—moral, political, military—is deeply embedded in our national identity. There is a deep suspicion of our allies and a sense that, when the chips are down, the United States must ultimately act on its

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own.”<sup>1</sup> Yet, as the authors point out, only a small minority of Americans (21 percent) believe that the United States should act as the world’s policeman; 75 percent oppose the idea.

A similar contrast is found when aid to a defrocked Soviet Union is discussed. An overwhelming majority of people are concerned that an “unfriendly” government could come to power in Russia if the democrats in control do not receive sufficient aid; yet a similar majority thinks the United States has already done enough to help democracy in the country. In short, Americans seem to think that times are tough all over; the Russians will have to take up the slack themselves. The same attitude pervaded the recent debate on President Bill Clinton’s proposal to provide Mexico with \$40 billion in loan guarantees after the Mexican government devalued the peso and sent the Mexican economy into shock. Although the guarantees would not have cost the Treasury any money (unless Mexico defaulted), congressional leaders, claiming they were only following their constituents’ orders, rejected the idea as a bailout for Wall Street and a handout to an undeserving regime; preserving the economic integrity of a developing nation of 100 million people on the United States border was not a national security concern.

The neo-isolationist impulse has found expression in many of the policies and actions of Bill Clinton’s Democratic administration and in the Republicans’ vision of foreign policy as articulated in the so-called Contract with America and proposed national security legislation. Each camp has catered to neo-isolationist clamor—and each has seemingly forgotten that the real issue that confronts the United States is not just balancing the budget, but working to preserve the peace that has allowed foreign affairs to be placed at the bottom of the American agenda.

## DON'T DO AS I SAID

Clinton came to office facing a full plate of foreign concerns. They included a vicious, media-saturated war in Bosnia; American troops groping to understand their mission in Somalia; and rafts of Haitian boat people trying to escape a military fiefdom. During the presidential campaign, Clinton had positioned himself to the right of George Bush, and had called for action to stop the genocidal “ethnic cleansing” in Bosnia and an end to returning the boat people; he also condemned the “coddling” of Iraq’s Saddam Hussein and the Chinese Communists who had massacred student protesters at Tiananmen. His foreign policy would be one of enlightened internationalism—“pragmatic neo-Wilsonianism” as National Security Adviser Tony Lake later put it.

This changed quickly once Clinton was inaugurated; as Warren Christopher, the president’s secretary of state, said of candidate Clinton’s pronouncements on Bosnia and Haiti, “I don’t suppose you’d want anybody to keep a campaign promise if it was a very unsound policy.” And the president did not keep them. With Bosnia, for example, the administration found the public willing to accept some decisive albeit limited action, even though the public did not consider Bosnia vital to the United States. But when the administration tried to rally its European allies around such action—a proposal to lift the international arms embargo on Bosnia and carry out “surgical” strikes on the Bosnian Serbs—it ran into a French-British roadblock to the idea. Rather than push aside the roadblock, the administration dallied, curtsied, and ultimately dropped the proposal in favor of “containing” the conflict after Christopher decided the president’s political capital was better spent on domestic issues.

With most Americans remaining unconvinced that Bosnia is a vital American interest (and with the secretary of state saying that “at heart, this is a European problem”), containment has continued to be the watchword by which the administration has approached Bosnia, the limited NATO airstrikes and offer to send ground troops to help with the withdrawal of UN notwithstanding.

In retrospect it was a wise investment decision; the Somali operation soon blew up in the administration’s face, and the fallout continues to color Clinton’s foreign policy choices. Candidate Clinton had supported the Bush administration’s decision to send American troops to Somalia in 1992 as part of a multinational response to the famine and political chaos that were ravaging the former American client state. President Clinton, however, found that famine was no longer a major problem for Somalia; the power vacuum in the country was. With little calculation or oversight (and in the face of much congressional desire to see the operation ended), it was decided that multinational (read United States) troops should try their hand at rebuilding a Somali state. Thus was born the thinking that left 18 Americans killed in a raid to nab one of the “bad guys” in an attempt to allow state building to commence. It is not hard to remember the American public’s response to the photographs and news footage of one of the American dead being dragged through the streets of Mogadishu by the very people the soldiers had been sent to help.

The Mogadishu images were quickly followed by those capturing the *Harlan County* incident, in which an American troopship was shown exiting Haiti’s Port-au-Prince harbor after a small group of supporters of the military government protested its arrival. The two incidents catalyzed a reaction from Clinton. However disengaged Americans might want to be from the

<sup>1</sup>See “The Rules of Public Engagement,” in *Beyond the Beltway* (New York: Norton, 1994), p. 60.

world, when they are involved, they want to be involved as a winner. Clinton was no doubt aware of this attitude. His ratings on foreign policy already low before Mogadishu and Port-au-Prince, the president began to immerse himself in foreign affairs. Among other things, he lobbied hard for and won approval of the North American Free Trade Agreement (NAFTA) in the face of widespread, grassroots opposition to what was perceived as an economic gift to Mexico. The administration cast Somalia as a "failed state" beyond American help and plans were put in place for American troops to be fully withdrawn from the country, and in September, against public sentiment and without congressional backing, Haiti was invaded and ousted President Jean-Bertrand Aristide restored to power. One month later the administration brokered (through former President Jimmy Carter) a deal with North Korea that may lead to the dismantling of that country's nuclear weapons program. It also began a massive airlift of troops to the Persian Gulf after Iraqi forces were found to be moving near the border with Kuwait, again.

The last, of course, found approval in an American public that had been told Iraq's Saddam Hussein was the new Hitler and Kuwait today's Sudetenland. But it and the successful "intervasion" of Haiti were not enough to draw Americans out of the domestic concerns that consumed them. Clinton may have found that if the president leads, the country will follow on foreign affairs—but only for limited objectives accomplished with limited forces (Iraq being an exception). Still, the president himself seemed less than interested in keeping the United States actively engaged. As a former administration official said of Clinton after these foreign policy positives: "Does he like foreign policy except as an escape from domestic policy? No. Does he have a coherent view of the world and America's place in it? No." In any event the administration's foreign policy high was short-lived; the midterm elections in November saw a Republican rout of both houses of Congress and the election of the political vanguard of the neo-isolationists.

## MYOPIA IN POWER

The new speaker of the House of Representatives, Newt Gingrich (R-GA.), has little interest in foreign affairs. His party's Contract with America, which has become something of a latter-day Bill of Rights in Republican circles, makes foreign affairs only one of the 10 major issues it discusses. The speaker's and the contract's peripheral concern with foreign issues parallels the country's mood, but the contract spells out a plan of action to accommodate that mood.

The Republican contract is not avowedly isolationist, but the resemblance to Herbert Hoover's 1950 call for a "Fortress America" is uncanny. Legislation to implement the contract's contents would fatten the defense budget to keep American military might second to none; encircle the United States with ballistic missile defenses; dramatically restrict American involvement in UN peacekeeping; and expand NATO to include most of the former Warsaw Pact nations. International activism, as in Bosnia, for example, would be limited to lifting the arms embargo—the equivalent of "lift and wash hands."

On the surface the "National Security Restoration Act" (as this part of the contract is called) promises protection for home and hearth, and reassurance that American troops and money will not be used in futile foreign adventures. But it is a static, backward-looking conception of how to preserve peace in the post-cold war era; an unrealistic and probably unworkable approach that only guarantees confusion in foreign affairs.

Republicans charge that recent defense cuts (most of which were made under the Bush administration) threaten to return the United States military to the "hollow forces of the 1970s." Readiness has been cut, regional commitments cannot be met, and pay has been inadequate. However, as John Steinbruner has argued, "No military force in existence can justify the degree of readiness [the United States is] attempting to preserve. Our official annual defense budget is five times larger than that of any other single country and is comparably larger than the combined budgets of all the major countries with which we are not formally allied and might conceivably come into confrontation. The combined official defense budgets of Russia, China, Iran, Iraq, Syria, Libya, India, and North Korea, for example, are about 20 percent" of the United States budget.<sup>2</sup> Obviously, there is room to cut—and to think about what American defense spending priorities are today.

The provisions for ballistic missile defense also express a defense-at-any-cost attitude—and the desire to use technology to make the United States an island. The Strategic Defense Initiative (SDI or "Star Wars") was spawned during the Reagan administration and has since been mythologized by the right as the technological proposal that drove the Soviet Union to military despair and ultimately led to its demise. The Republicans believe that a renewed SDI effort will preclude messy diplomatic deals with nuclear rogue states such as Iran or North Korea. The United States would also no longer have to worry about limiting nuclear proliferation. Terrorist attacks, or nuclear blackmail would become nightmare scenarios from the past. Of course, how the rest of the nuclear-armed world will view this is left unremarked on, as are the treaty ramifications and the technological and financial is-

<sup>2</sup>John Steinbruner, "Reluctant Strategic Realignment," *The Brookings Review*, Winter 1995, p. 6.

sues generated when SDI was first broached in the 1980s.

While ballistic missile defense will remain a hope, if not a dream, for some time to come, the constraints the Contract with America would place on United States participation in UN peacekeeping efforts are very much of the moment. The UN has always been suspect by the right, viewed as the seed from which a future world government would spring to strip America of its sovereignty, its identity. And George Bush's wholehearted endorsement of the UN as a new world-ordering machine—with the United States *primus inter pares*—was distasteful to the right. The multilateral momentum he created has been, from the conservative perspective, discredited by the UN's dysfunctional behavior, most pointedly in Somalia. The (false) belief that the UN somehow was the party responsible for the deaths of the 18 American soldiers in Mogadishu is no doubt the reason for this part of the contract. Although the troops were not under UN operational command, and although the attempt to capture or kill Somali warlord Mohammed Farah Aidid was launched and commanded by Americans (albeit without the direct knowledge or approval of President Clinton), the Republicans have seized on the event as the most glaring example of the UN's malfeasance and incompetence.

Under legislation proposed to implement the contract's principles, the United States would cut contributions to the UN, impose Scrooge-like accounting on United States aid to peacekeeping operations, and restrict the executive's authority to contribute American troops for UN peacekeeping by requiring prior congressional approval (except when the president has declared such a contribution would be in the national interest). The United Nations might be useful in the chaotic world that confronts the United States, but only when the United States decides it is useful, and where.

There is one oddity in the contract's generally isolationist agenda: the call to extend NATO eastward to incorporate many of the former Soviet satellite nations. Poland, Hungary, the Czech Republic, and Slovakia, considered the most economically and politically advanced eastern European nations, are to be admitted to NATO by 1999 if they meet certain criteria, such as democratic government and free market economies (the Baltics and Ukraine are also mentioned as possible future members). Why a proposal to enlarge NATO's security commitments should be forwarded in a document that generally calls on the United States to hunker down internationally is a mystery. Perhaps a bit

of the "Evil Empire" is still thought to reside in democratic Russia. This perception would help explain why the sheer geopolitical nonsense of the proposal is not self evident; extending NATO up to Russia's borders is akin to making Mexico or Canada (or both) members of a security alliance of which the United States is not a member, something this country's leadership would undoubtedly find alarming. Does the United States really need to stoke the passions of Russia's Zhirinovskys?

## MASTERY?

The American Enterprise Institute's Herb Stein has called the Contract with America a "good—that is to say terrible—example of late-twentieth century political rhetoric. There is banality raised to the level of torture, self-congratulation, certitude where only uncertainty is possible, straw myths refuted by fake facts and the inevitable ten—not nine, not eleven—points." However, the contract is being taken seriously at the highest levels of government. Are its provisions on foreign affairs the first draft of this country's future place in the world?

Hopefully not. Yet the present administration has shown itself unable to execute—let alone fully articulate—an alternative. In his January State of the Union message, Clinton devoted only 12 of 122 paragraphs to international affairs—and none of these dealt with substantive issues (he, at least, did deal with the subject; during the height of the last isolationist phase Franklin Roosevelt did not even mention foreign relations in his second inaugural speech). After his pre-November foreign policy successes, the president seems to have reverted to an earlier avoidance of foreign policy because of the public's concern with domestic issues. But now is precisely the time to become involved in foreign policy. The crowing of isolationists like Pat Buchanan (who said, on the defeat of the loan guarantees to Mexico, that this "is the first complete rout of the governing elite since the League of Nations went down to defeat") needs to be countered. It can be done so only with a firm commitment to keep before the American people the international issues that require a decisive United States role. The nuclear nonproliferation treaty, a comprehensive test ban, the need to be fully engaged with Russia as it struggles along the path from communism—these are but three subjects that are of overwhelming interest to the United States and that only the president can lead on. Not to do so is to consign the United States to a trajectory whose inevitable terminus is conflict and chaos. ■



# BOOK REVIEWS

## ON NORTH AMERICA

### Shadows of Tender Fury

Translated by Frank Bardacke et al. New York: Monthly Review Press, 1995. 272 pp., \$30, cloth; \$15, paper.

The media loves mystery figures, especially when they give interviews. Since January 1, 1994, Zapatista Liberation Army spokesman Subcomandante Insurgente Marcos has held the world's attention as a "guerrilla in the mist." Few rebel leaders have made such lapdogs of the press; hundreds of reporters have raved about Marcos's intelligence, camaraderie, and charisma. But the man himself remains an enigma: is he a priest? intellectual? journalist? foreigner? Indeed, he is a Cinderella whom no shoe seems to fit.

However, anyone seriously interested in the Zapatista rebellion in Mexico's Chiapas state needs to look beyond Marcos, captivating as he is; *Shadows of Tender Fury* is a good place to start. The book, a collection of the Zapatista General Command's communiqués written by Marcos, conveys the guerrillas' ideas and hopes—not in dry political documents but in carefully constructed prose, ranging from a striking personal tour of "life without dignity" in Chiapas to wry commentary and parabolic anecdotes. Marcos uses a sometimes formal, sometimes puckish style to chide student groups ("guerrilla fighters who seize *zócalos* [central plazas] sooner or later end up 'ham-burghering' themselves. . . send back two, hold the onions and ketchup. Thank you."); encourage embattled supporters ("If saying the truth and searching for justice make you a 'Zapatista,' then we are millions. Bring on the army!"); and even to address curious schoolchildren. .

The strongest communiqués flow from heartfelt anger and frustration. When the government lies about progress in peace talks with the Zapatistas, powerful imagery frames the Zapatista response: "We are shadows of tender fury; our dark wings will cover the sky again, and their protective cloak will shelter the dispossessed. . . If they deny us our rights. . . no door will be unopened, no window left unbroken, no wall left standing." Passages like these show that seemingly "soft" and charming guerrillas can be implacable—a fact too easily forgotten when the media is entranced by a charismatic personality like Marcos.

The Zapatistas possess the idealism, passion, and adventurous spirit of the romanticized fighters of the Mexican revolution, and the realism of men and women who believe they face certain death. *Shadows of Tender Fury* reminds us that beyond the media Marcos there is an angry, determined group waiting for a favorable response to major requests for economic and

political equality. And these "shadows of tender fury" are ready to die—and kill—if they are refused.

Melissa J. Sherman

### On the Line:

#### Life on the U.S.-Mexican Border

By Augusta Dwyer. New York: Monthly Review Press, 1994. 151 pp., \$15.

Augusta Dwyer traveled the unlovely borderlands between the United States and Mexico during the years NAFTA was being negotiated and ratified, finding Mexicans on both sides impoverished and exploited.

Several dozen factory hands in Mexico and migrant laborers in the American southwest, visited in their poor houses and wretched camps, talk to the Canadian journalist about their lives. In between their stark stories, Dwyer, brandishing statistics, makes her case against the institutions she names as their oppressors.

Leading the list are the American corporations that own and the managers who run the more than 2,000 *maquiladora* assembly plants in Mexico that employ half a million Mexicans at around \$1 an hour. The *maquiladoras*, Dwyer charges, have brought uncontrolled development, slums, and pollution all along the 2,000-mile-long border. Then there is Mexico's ruling Institutional Revolutionary Party, which has maintained itself in power through a mixture of intimidation and concessions and has sold out citizens for foreign investment; backing the party are the well-connected families who have profited from the system. Looming behind them all is the modern capitalist system.

Well into the book, Dwyer crosses the Rio Grande into the United States. She treats to somewhat scattered criticism American employers who depend on the cheap labor of legal and illegal workers from points south. The United States Border Patrol requires a chapter to itself detailing agents' abuses. Dwyer highlights hate crimes against Hispanics and accuses conservative politicians of fomenting an anti-immigrant backlash for their own purposes. Throughout, she contends that Mexicans help the American economy rather than harm it.

Despite the voices of poor Mexicans pulling readers in, *On the Line* is essentially an analysis of a first world country's exploitation of a developing neighbor. It is damning, but it is not a well-rounded or even a particularly humane picture. Dwyer writes as an implacable critic with an agenda rather than a merely observant reporter, and this takes away from her book's power to convince.

Alice H.G. Phillips

# THE MONTH IN REVIEW

January 1995

## INTERNATIONAL

### European Union (EU)

Jan. 1—Austria, Finland, and Sweden officially become members, raising the number of countries in the union to 15.

### United Nations (UN)

Jan. 1—Honduras, Italy, Botswana, Germany, and Indonesia begin 2-year terms as nonpermanent members of the 15-seat Security Council.

## ALGERIA

Jan. 13—In Rome, 3 opposition groups—the Islamic Salvation Front, the National Liberation Front, and the Front for Socialist Forces—reach a tentative peace agreement with the government. Under its terms, the groups would end their violent campaign against the government, which canceled elections 3 years ago when Islamic fundamentalists appeared to be winning; in return, the government would release 10,000 prisoners and legalize the Islamic political movement.

Jan. 21—The president of the Algerian Soccer Association is killed by suspected Islamic militants.

Jan. 22—The agreement reached January 12 falls apart, following rejections by government officials and 2 Islamic groups that were not part of the Rome talks.

A French businessman is killed in Algiers by suspected Muslim militants.

Jan. 30—A car bomb explodes in downtown Algiers, killing 42 people and wounding 284. No one claims responsibility for the attack.

Jan. 31—The government announces that 15 suspected Muslim militants have been killed in raids by security forces during the past 2 days.

## ANGOLA

Jan. 11—The UN announces an agreement between the government and the rebel National Union for the Total Independence of Angola (UNITA), under which the 2 sides will withdraw their troops immediately from Huambo and Uige; skirmishes in the 2 provincial capitals are endangering a 6-week-old peace treaty ending the 19-year civil war.

## BOSNIA AND HERZEGOVINA

Jan. 7—UN aid flights to Sarajevo are halted after relief planes returning from the city are fired on.

Jan. 14—Four civilians are killed in shelling in Bihac, where sporadic fighting has continued despite a cease-fire covering the area that was signed last month.

Jan. 17—The Bosnian government orders the UN to reopen the airfield at Tuzla by February 1 or remove the 200 UN troops stationed there; the airport has been closed since last March because of Serb snipers.

Jan. 19—Fighting intensifies in Bihac; more than 400 shells hit the town. The UN reports that Croatian Serb forces may be moving heavy artillery near the area.

Jan. 25—Mediators from the so-called Contact Group—the US, Britain, France, Germany, and Russia—break off peace

talks with the Bosnian government and the Bosnian Serbs; they say that the latter, who currently hold 71 percent of Bosnia, are obstructing talks by refusing to consider a partition plan that would give them 49 percent of the country.

## CAMBODIA

Jan. 15—The Khmer Rouge claims responsibility for killing 1 American tourist and wounding another in an attack on tour vans near Angkor.

## CANADA

Jan. 24—Following recent public showings of videotaped hazing rituals, Defense Minister David Collette announces that the Canadian Airborne regiment will be disbanded. Nine soldiers from the regiment are also being court-martialed in the torture and death of a Somali prisoner during the regiment's tour with the UN in Somalia.

## CROATIA

Jan. 12—President Franjo Tudjman tells the UN to withdraw its 12,000 troops from the country by March 31; the UN's peacekeeping efforts in the former Yugoslavia are headquartered in Zagreb.

Jan. 30—In Knin, Croatian Serb rebels reject a plan for limited Serb autonomy proposed by European, Russian, and American mediators trying to keep the war in Croatia from resuming; the Croatian Serbs currently control about one-third of Croatia.

## ECUADOR

Jan. 27—After border skirmishes with Peruvian troops, President Sixto Duran Ballén declares a state of emergency and calls for a military mobilization.

Jan. 28—The Ecuadorean military announces that 13 Ecuadorean soldiers and 20 Peruvian soldiers have died in border skirmishes since January 26. A January 29, 1942, peace treaty with Peru forced Ecuador to cede 70,000 square miles to Peru, including its access to the Amazon River and part of the Amazon rainforest thought to be rich in gold and oil. Ecuador rejected the treaty in 1960; since then, troops from the 2 countries have engaged in periodic skirmishes.

Jan. 30—Thousands of Peruvian refugees, some forcibly ousted from their homes, flee into Peru from Ecuador's and Peru's border regions.

## EGYPT

Jan. 2—Near Mallawi, 11 people are killed and 4 wounded in 4 separate attacks; the Islamic Group claims responsibility.

Jan. 10—In Cairo, a military court sentences 2 Muslim militants to death for the attempted assassination of Nobel Prize-winning writer Naguib Mahfouz; 2 other defendants are sentenced to life in prison.

## GERMANY

Jan. 30—At a party conference in Berlin, the reformed East German communists condemn Stalinism and say they support the democratic order in Germany; party chairman Lo-

thar Bisky, a moderate, had said he would resign from the party unless it made this declaration.

## HAITI

- Jan. 6—The US begins forced repatriation of 4,000 Haitian refugees at Guantánamo Bay naval base in Cuba; 45 Haitians are returned to Port-au-Prince.
- Jan. 12—An armed Haitian kills 1 US soldier and wounds another at a checkpoint in Gonaïves; the gunman is killed and another man arrested.
- Jan. 22—Reporters for the official television network strike to protest what they say is government censorship.
- Jan. 26—President Jean-Bertrand Aristide announces that Justice Minister Ernest Luc Malebranche has resigned; no explanation is given.
- Jan. 31—The World Bank announces that \$900 million in aid and additional assistance for Haiti has been put together by international agencies and donor countries.

## INDIA

- Jan. 26—In Jammu, 3 bombs explode at a public gathering to celebrate the Indian national holiday, killing at least 8 people and wounding more than 100; it is thought that Muslim rebels were attempting to assassinate Governor K. V. Krishna Rao and army commander Lieutenant General L. T. Surender Singh, who were attending the gathering.

## IRAN

- Jan. 6—Air force commander Brigadier General Mansour Satri and 11 other military officers, including 4 generals, are killed when their plane crashes outside Isfahan.
- Jan. 7—The government announces it will sign a contract with Russia to complete the construction of a nuclear power plant in Büshehr.

## ISRAEL

- Jan. 2—The government halts construction of a Jewish settlement in Efrat in the occupied West Bank after weeklong Palestinian protests but says it will allow settlers to build at a site closer to another settlement and farther from the Arab town of Al Khader. Both Palestinians and Israelis claim jurisdiction over the hilltop where construction has begun.
- Jan. 4—Israeli soldiers kill 4 Palestinians in the Israeli-occupied West Bank town of Beit Liqya; the victims were suspected militants from the Popular Front for the Liberation of Palestine.
- Jan. 19—Prime Minister Yitzhak Rabin announces that he will not approve any new Israeli settlements in the West Bank and will monitor ongoing settlement construction.
- Jan. 22—Two suicide bombers kill 19 people and wound 61 at a bus stop near Nordiya; almost all the killed and wounded were Israeli soldiers; Islamic Holy War takes responsibility for the bombing. In response, Israel seals off the Gaza Strip and the West Bank. Since last April, 54 people have been killed in Palestinian suicide bombings in Israel.
- Jan. 25—The government approves plans to build at least 2,200 new apartments near Jerusalem in the West Bank, but promises to slow the sale of the new units while it seeks compromises between Jewish settlers and Palestinians who are feuding over land claims around Jerusalem.

## ITALY

- Jan. 13—President Oscar Luigi Scalfaro names as prime minister the nonpartisan Lamberto Dini, treasury minister in the

previous government and a former chief of the central bank. Silvio Berlusconi resigned from the post 3 weeks ago.

- Jan. 25—The new government wins approval from the lower house of parliament; Dini has said the government will resign to make way for elections after implementing economic and electoral reforms.
- Jan. 30—At a party congress in Fiuggi over the weekend, the neo-Fascist Italian Social Movement (MIS), formed in 1946, restructured itself under a charter that affirms its commitment to democracy and condemns anti-Semitism, *The New York Times* reports; the new party will be called the National Alliance, the name of a rightist bloc the MIS participated in that received 13.5% of the vote in parliamentary elections in April.

## JAPAN

- Jan. 22—More than 4,900 people died and more than 14,000 were injured in an earthquake that struck early on January 17, *The New York Times* reports.

## JORDAN

- Jan. 5—Prime Minister Abdul-Salam Najali resigns after 19 months in office; King Hussein accepts the resignation and announces the appointment of Field Marshal Zeid Bin Shaker, a cousin, as the new prime minister.
- Jan. 21—In Aqaba, King Hussein meets with President Hosni Mubarak of Egypt; it is the first time the 2 leaders have met since 1990.
- Jan. 30—Israel begins the transfer of 130 square miles of territory between the Dead Sea and the Gulf of Aqaba to Jordan; the transfer is part of the terms of the peace treaty the 2 countries signed in October.

## LEBANON

- Jan. 15—Israeli aircraft bomb a suspected base of the guerrilla Popular Front for the Liberation of Palestine near the Beirut airport; 3 people are reported killed, and 4 wounded.

## MALI

- Jan. 30—Nomadic Tuareg rebels have attacked Timbuktu and a score of other towns on the edge of the Sahara in recent months, *The New York Times* reports. In retaliation, government forces from Mali and neighboring Niger have destroyed Tuareg settlements and forced thousands of Tuaregs into exile.

## MEXICO

- Jan. 3—President Ernesto Zedillo Ponce de León announces an economic stabilization plan; measures include a tentative \$18-billion credit package from the US, Canada, and other sources; cuts in government spending and credit programs; speedier privatization of government holdings; gradual price rises; and a wage-raise cap of 7%; the measures are in response to the peso's continuing fall in value since the government devalued the currency in late December.
- Jan. 17—Zedillo and 4 opposition party leaders sign a pact to negotiate election law reforms; the parties have reportedly also agreed to hold new elections within 18 months for the governorships of Tabasco and Chiapas, where results from August balloting favoring candidates from Zedillo's Institutional Revolutionary Party (PRI) have been widely disputed by the opposition.
- Jan. 19—In response to the possibility of new gubernatorial elections, PRI supporters of Governor Roberto Madrazo block highways and shut down businesses and schools in Tabasco state.

Jan. 26—In the largest loan in its history, the International Monetary Fund agrees to lend Mexico \$7.8 billion.

Jan. 31—US President Bill Clinton signs an executive order offering \$20 billion in emergency aid to Mexico to be repaid over several years; in addition, he announces that the International Monetary Fund will increase its loan to \$17.8 billion, and the Bank for International Settlements will contribute a \$10-billion loan.

The stock market rises 10.3% and the peso climbs to 5.75 to the dollar, up from yesterday's low of 6.35.

## MYANMAR

Jan. 27—Some 15,000 troops capture Manerplaw, the headquarters of Karen rebels, about 175 miles southeast of Yangon; Karen leader General Bo Mya and about 6,000 followers escape to Thailand. Karen guerrillas have been fighting the government for 46 years.

Jan. 31—More than 15,000 Karens have fled to Thailand since January 27, *The New York Times* reports. Karen officials say 15 guerrillas were killed and more than 50 wounded at Manerplaw.

## NIGER

Jan. 15—State radio announces that January 12 legislative elections were won by 4 opposition parties led by the National Movement for Social Development, which together took 42 seats; a 5-party bloc under President Mahamane Ousmane won 40 seats.

## PERU

Jan. 21—In Lima, President Alberto Fujimori's wife, Susana Higuchi, ends a 4-day hunger strike, during which she was hospitalized; Higuchi was protesting the "Susana law," approved in July, which bars a president's spouse or blood relatives from running for public office.

## RUSSIA

Jan. 1—After days of bombing Grozny, the capital of the break-away republic of Chechnya, Russian troops enter the city; casualties on both sides are said to be in the hundreds. The Chechen military leadership calls for all able-bodied Chechen men to defend the city; thousands of volunteers arrive. Chechen President Dzhokhar Dudayev declared the predominantly Muslim province independent in 1991; Russia sent in troops December 11, saying it was restoring constitutional order.

Jan. 4—Responding to domestic and international criticism, Russian President Boris Yeltsin orders the air force to halt the bombing of Grozny to limit civilian casualties; Yeltsin announced a week ago that the bombing of civilian targets would stop.

Jan. 6—The Red Cross says as many as 350,000 Chechens are now refugees; the population of Chechnya was 1.2 million before Russian troops entered the province.

Jan. 11—At a news conference in Grozny, Dudayev says that a military solution to the conflict is now impossible, and calls for peace talks; "everything can be settled in an hour," he says.

Jan. 19—Russian soldiers take control of the presidential palace in central Grozny; Yeltsin says that "the military stage of the restoration of the Russian constitution is effectively over," and announces that Interior Ministry police will reestablish law and order and civil rights. Chechen fighters have

said they will carry on a guerrilla war in the city and surrounding hills.

Yeltsin dismisses 3 deputy defense ministers—Generals Boris Gromov, Georgi Kondratyev, and Viktor Mironov—who publicly criticized the war in Chechnya. He also transfers to the reserves General Eduard Vorobyev, the first deputy commander of Russian land forces, who declined to lead troops into combat in Chechnya, saying they were poorly prepared. "Russia is now governed by a military-civilian junta disguised as the National Security Council," says Alexei Manannikov, deputy chairman of the upper house of parliament's international affairs committee.

Jan. 20—Colonel General Aleksandr Zherebtsov, deputy head of the Russian armed forces general staff, tells parliament that 553 Russian troops have been killed in Chechnya, and 2,000 others wounded; other Russian officials have said that 2,000 troops have died. The death toll for Chechen soldiers is also put at more than 2,000; there are no official estimates for civilian casualties.

## RWANDA

Jan. 9—Army officials say that troops shot and killed 11 people 2 days ago in a refugee camp in Busanze in southern Rwanda; aid workers reported 12 deaths.

Jan. 31—The UN says it has closed a refugee camp near Cyanka, in the zone in the southwest protected by the French during last year's civil war; 20,000 refugees have returned home, while 300,000 remain in camps in the area.

## SOMALIA

Jan. 3—Four days of fighting between rival clans in the Ber-muda district of Mogadishu have left at least 16 people dead and 230 wounded; the district allows access to the capital's seaport, which is under UN control.

Jan. 30—In Mogadishu, 3 people are killed and at least 13 wounded in fighting between rival clans over a building vacated by a UN agency.

## SRI LANKA

Jan. 3—The government and Tamil rebels announce a ceasefire in the 12-year-old civil war. Rebels release 4 police officers who have been held hostage since June 1990.

## UNITED STATES

Jan. 12—In New Delhi, the US and India sign a military agreement that provides for consultations between the 2 countries' defense ministries, and for joint military exercises, research, and weapons production.

## UZBEKISTAN

Jan. 4—The election commission reports that the Democratic Party, the renamed communists, won 179 of 250 seats in parliament in the country's 1st elections, held December 25.

## VIETNAM

Jan. 7—Human Rights Watch reports that Thich Huyen Quang, the supreme patriarch of the Unified Buddhist Church, was arrested December 29, after embarking on a hunger strike to protest the government's detention of several monks. The government banned the church and other independent Buddhist groups in the early 1980s. ■



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